**ARCHIVE JUNE 2012 – DEC 2012**

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**DECEMBER 2012 NEWSLETTER ARCHIVE**

**FORZA INVESTMENT ADVISORY, LLC** [**www.forzaInvestment.com**](http://www.forzainvestment.com/)

**Call us (908) 344-9790**

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### From the Desk of Bob Centrella, CFA: December 31, 2012

### " Happy 2013 - But What Kind of Crag Deal are we Going to Get?"

### Start 2013 Fresh - Take advantage of our Free Portfolio Review Offer. Call us at 908-344-9790

### Dear Friends:

### I hope you all had a great Christmas last week and I wish you and your family a very Happy, Healthy and Blessed New Year. I will keep it super short today as the countdown to the Crag, Cliff, Precipice, Abyss continues and closes in on the end of today.

### The consensus still seems to be that something will get done today to temporarily push the can down the road and let the new Congress and Senate deal with the real issues in early 2013. However, I think I share the same sentiment of most Americans when I say I am embarrassed and completely disappointed that the politicians that we "trust" and elected to represent us have failed miserably. I had put foolish faith in the fact that our politicians and President wouldn't actually wait until the last minute to at least give us something to show that they cared and understood the magnitude of the situation. Surely they would at least throw us a bone to calm the markets so we could enjoy the usual Santa Claus and Year-end rallies. But alas, here we are on December 31st still awaiting a crumb. Where is the sense of urgency?

### As tough as it was this past year, the broad stock market so far has still managed to post a pretty good year barring a catastrophe today. The S&P 500 has returned 11.5% plus dividends and most equity markets all over the world are in the green. Also, the US market is bursting at the seams to move to the upside on a deal announcement. Volume will be light today so any move either way could be somewhat magnified. So, let's at least hope that our fearless leaders give us that crumb today and the equity markets are at least given a few hours to finish the year on an upswing. Umm, just don't hold your breath though.

### That's all folks. HAPPY NEW YEAR!

**\*\*\*Changing jobs or retiring soon? *We are also the 401K/IRA Rollover Specialists. 908-344-9790***

**Economy**

It was a very light week of economic news.

New single-family home sales rose 4.4% in November, to a 377,000 annual rate, very close to the consensus expected pace of 380,000. Sales are up 15.3% from a year ago. The median price of new homes sold was $246,200 in November, up 14.9% from a year ago. The average price of new homes sold was $299,700, up 19.9% versus last year.

**Bonds**

Friday Close Prior Week Comment

**10-yr UST yield** 1.708 1.75%. Down from 1.88% at beginning of year

**30-yr UST** 2.884 2.93% About flat with 2.89% at beginning of year

**ML High Yield 100** NA 5.00% Spreads are really tightening

**30-yr Fixed** **Mtg** 3.60% 3.61%.

**Commodities & Currencies**

Friday Close Prior Week Comment

**Gold/oz** $1654.9 $1659

**Crude Oil** $90.80 $88.66 Back above $90

**NYMEX Nat Gas** $3.469 $3.451

**$ per Euro** 1.3218 1.319

**Yen per $** 85.97 84.24 Japan wants a weak Yen

**Reuters CRB** 294.78 294.13

**Stocks**

The Dow fell sharply at week's end and dropped 252 points to close under 13,000 at 12938. The S&P fell 1.94% to 1402.4 and the NASDAQ dropped 2% to 2960.

European stocks were down with Euro Stoxx 600 falling .77%.

Asia/Pac stocks continued to climb with the Dow A-P index up 1.04%. Japan charged ahead 4.58% and is now up 23% YTD.

**Weekly Index Performance:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Dow Jones Industrials** | 12,938 | -252.73 | -1.92% |
| **S&P 500** | 1402.43 | -27.72 | -1.94% |
| **NASDAQ Comp** | 2960.31 | -60.69 | -2.01% |
| **S&P Mid Cap** | 1004.33 | -18.03 | -1.76% |
| **S&P Small Cap** | 467.41 | -8.32 | -1.75% |
| **Russell 2000** | 832.10 | -15.82 | -1.87% |
| **Stoxx Euro 600** | 278.78 |  | -.77% |
| **Dow Asia/Pacific** | 133.46 |  | 1.04% |

|  |  |
| --- | --- |
| **Strong Sectors** | Materials, Telecom, Financials |
| **Weak Sectors** | Energy, Utils, Technology |
| **NYSE Advance/Decline** | 778 / 2373 |
| **NYSE New High/Low** | 152 / 73 |
| **AAII Bulls/Bears** | 40.4% Bulls / 30.2% Bears |

Have a great week!

Bob

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### From the Desk of Bob Centrella, CFA: December 24, 2012

### " TWAS THE WEEK BEFORE THE CRAG"

### Tired of trying to figure out this market? Take advantage of our Free Portfolio Review Offer. Call us at 908-344-9790

### Dear Friends:

### Twas the week before the Monetary Crag (er, Fiscal Cliff) and all through the Congress and White House, not a bill was to be signed not even with the help of Santa Klaus. The traders stood ready to buy on the Big Board as they waited for Boehner and Obama to reach an accord.

### Now BOEHNER! now REID! now PELOSI and CANTOR! On GEITHNER! on KERRY! on BIDEN AND BAMA!

### Get a deal done! Get on the phone and make that call!

### Don't raise our taxes, instead let them fall!

### Who's it going to be, who will be the first to blink?

### It's all a game of Budget Bluff, that's what I think.

### They will assert that it wasn't for their lack of trying,

### They all wanted a deal but they couldn't stop fighting.

### In the end they will come together after the stock maket has fallen,

### They will claim that they both won while we the people lose out due to their stallin(g).

### OK, so maybe I'm not a poet, but not bad for 20 minutes of work. SEASON'S GREETINGS and HAPPY HOLIDAYS to all! Since it is Christmas Eve (day), as you might guess I will keep it brief today. I've got a lot of fish to prepare for tonite's "Festa dei Sette Pesci" or our Italian feast of the 7 fishes. The market will also close early at 1pm so make your trades in the morning if you need to do anything.

### I thought I'd keep it simple and present you with my annual market Christmas wish list. As I mentioned, we did pretty well with last year's list so let's see how we do this year. So here goes:

### For goodness sakes, arrive at a compromise on the Monetary Crag and avoid the pain that would ensue without one. I'd like to ask for it to be done before the end of 2012 but I think that is asking a lot.

### For 2013, all S&P sectors produce a gain leading to another 10%-plus gain in the S&P 500 and other major averages.

### Crude Oil stays below $90 a barrel.

### A drop in unemployment to 7% by the end of 2013.

### Four quarters of positive and accelerating GDP Growth with overall growth average > 2.5%

### Europe ends its recession and produces positive GDP growth.

### Spanish and Italian bond yields stabilize and both those countries begin getting their fiscal houses in order.

### As part of the budget compromise, capital gains rates stay below 25% and dividends retain the qualified and non-qualified distinction. Also, no limitation on Muni Bond interest.

### Continued strength in US Housing leading to the aforementioned employment gains.

### China economy is not a house of cards and the country returns to growth mode.

### Bond yields stay relatively stable and investors don't rush out of the market as employment gets better. The 10-year UST stays below 2%.

### So there you have my wish list. I can probably come up with another 20 items but I don't want Santa to think I am greedy.

### Next week will also be light and then in 2013 I will announce the winner of last year's survey and send out the new survey. Winner is assured a nice bottle of wine from our Italian collection!

### That’s all for now, have a great week and MERRY CHRISTMAS!

**\*\*\*Changing jobs or retiring soon? *We are also the 401K/IRA Rollover Specialists. 908-344-9790***

**Economy**

GDP Growth was revised to 3.1% in 3Q

Existing home sales increased 5.9% in November.

**Bonds**

Friday Close Prior Week Comment

**10-yr UST yield** 1.75% 1.709%.

**30-yr UST** 2.93% 2.865%

**ML High Yield 100** 5.00% 5.13% Spreads are really tightening

**30-yr Fixed** **Mtg** 3.61% 3.61%.

**Commodities & Currencies**

Friday Close Prior Week Comment

**Gold/oz** $1659.1 $1704 Gold getting whacked.

**Crude Oil** $88.66 $86.73

**NYMEX Nat Gas** $3.451 $3.314

**$ per Euro** 1.3190 1.3164

**Yen per $** 84.24 83.51 Japan wants a weak Yen

**Reuters CRB** 294.13 294.89

**Stocks**

The Dow frose by week's end by 56 points or .4% to 13191 while the S&P 500 gained 1.17% 1430. The NASDAQ rose 1.67%. Small and mid-cap stocks rose sharply as investors perhaps are getting in their :January Effect" trade already.

European stocks were up with Euro Stoxx 600 up .55% for the week with Italy climbing 2.68% and Spain 3.33%.

Asia/Pac stocks continued to climb with the Dow A-P index up .73%. Japan rallied 2.08% to lead the index higher.

**Weekly Index Performance:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Dow Jones Industrials** | 13,190.84 | 55.83 | .43% |
| **S&P 500** | 1430.15 | 16.57 | 1.17% |
| **NASDAQ Comp** | 3021.01 | 49.67 | 1.67% |
| **S&P Mid Cap** | 1022.36 | 20.83 | 2.08% |
| **S&P Small Cap** | 475.73 | 14.33 | 3.11% |
| **Russell 2000** | 847.92 | 24.17 | 2.93% |
| **Stoxx Euro 600** | 280.95 |  | .55% |
| **Dow Asia/Pacific** | 132.09 |  | .73% |

|  |  |
| --- | --- |
| **Strong Sectors** | Financials, tech, Energy |
| **Weak Sectors** | telecom, Consumer, HC |
| **NYSE Advance/Decline** | 2127 / 1040 |
| **NYSE New High/Low** | 349 / 75 |
| **AAII Bulls/Bears** | 46.4% Bulls / 24.8% Bears Year-end Bull charge continues |

Have a great week!

Bob

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### From the Desk of Bob Centrella, CFA: December 17, 2012

### " Tragedy Puts Things in Perspective"

### Tired of trying to figure out this market? Take advantage of our Free Portfolio Review Offer. Call us at 908-344-9790

### Dear Friends:

### The senseless tragedy in Connecticut really puts things in perspective as the rest of our problems become so trivial. Although the problems facing the market every day are real and felt by us all, it seems to pale in comparison to what happened last week. My heart goes out to all those defenseless children and their parents as well as the other families that lost loves ones. Let us continue to remember them in our prayers.

### This morning the markets are looking up as it is reported that Speaker Boehner has put forth a new proposal that would allow taxes to rise on millionaires. Although it is already being shot down by Democrats it at least now establishes a Bid and an Ask along with the President’s proposal. I've thought that eventually a compromise could be reached by raising the level from $250K to a higher number. So let’s see if the politicians can negotiate to the middle or somewhere in between with the proposals on the table. The raising of tax rates is such a small part of the budget deficit but the President and Democrats are fixated on it. So give them something, Republicans take something, and move on.

### Speaking of negotiations -- does anybody care that we don't have a Hockey season? After turning away their fans just a few years ago with a lost season, here we go again.

### Last week the fed came out with its latest version of Quantitative Easing by announcing that they would expand the balance sheet and continue buying $40 billion a month of mortgage securities while also buying $45 billion of long-term treasuries. The difference now being that they won’t sell a similar short amount of securities. So if they continue for the full year, they will add $540 billion of Treasuries to a balance sheet that is already $2.8 trillion. Adding in the $40B per month in MBS and you get to $4 trillion overall by the end of the year.

### The other big difference was that they tied the low rates goal to unemployment. The Fed would continue with monetary easing as long as the unemployment rate is above 6.5% and inflation is less than 2.5%. So this opens up a whole new can of worms that was being hashed out by investors and strategists as the week progressed. Essentially, rates will stay low for a few years but as (if) we get closer to 6.5% unemployment, markets will anticipate the Fed and rates will rise beforehand. So it will be interesting to see at what level of unemployment will rates start to anticipate the 6.5% being reached.

### In other news the US Treasury sold its last piece of AIG stock finalizing its bailout and turning a tidy $23 billion profit in the process. In hindsight, another reason why the US electorate got it wrong by re-electing Obama. Romney would have been the obvious choice to lead the Government Private Equity fund as a way of attacking the deficit!

### That’s all for now, have a great week and I will touch base before Christmas

**\*\*\*Changing jobs or retiring soon? *We are also the 401K/IRA Rollover Specialists. 908-344-9790***

**Economy**

Industrial production rose 1.1% in November coming in well above the consensus expected gain of 0.3%. Production is up 2.5% in the past year.

Overall capacity utilization moved up to 78.4% in November from 77.7% in October. Manufacturing capacity use rose to 76.6% in November from 75.9% in October.

The Consumer Price Index (CPI) declined 0.3% in November, coming in slightly below the consensus expected -0.2%. The CPI is up 1.8% versus a year ago. The “core” CPI, which excludes food and energy, was up 0.1% in November and is up 1.9% versus a year ago.

Producer prices fell for the second straight month in November, dropping 0.8%. However, the decline was all due to energy prices which fell 4.6%, the largest drop since March 2009. Overall producer prices are now only up 1.5% from a year ago. “Core” prices, which exclude food and energy and which the Federal Reserve claims are more important than the overall number, were up 0.1% and are now up 2.2% from a year ago, slightly above the Federal Reserve’s 2%

Retail sales increased 0.3% in November, slightly less than the consensus expected. Sales were up 0.2% including revisions for September/October. Retail sales are up 3.7% versus a year ago.

New claims for unemployment insurance fell 29,000 last week to 343,000. This is great news, but don’t get too excited. The report for the first week of December 2011 showed a drop to 383,000, which, at that time, was the lowest since July 2008.

**Bonds**

Friday Close Prior Week Comment

**10-yr UST yield** 1.709% 1.63%.

**30-yr UST** 2.865% 2.814%

**ML High Yield 100** 5.13% 5.22% Spreads are tightening - becoming a crowded trade

**30-yr Fixed** **Mtg** 3.61% 3.54%.

**Commodities & Currencies**

Friday Close Prior Week Comment

**Gold/oz** $1704.0 $1704 Can you believe is up 8.3% YTD? Seems like it is down if you read the papers.

**Crude Oil** $86.73 $85.93 -12.24% YTD

**NYMEX Nat Gas** $3.314 $3.551 Up 10.87% YTD

**$ per Euro** 1.3164 1.2926 Big move in Euro and expected it could go higher

**Yen per $** 83.51 82.49 Japan wants a weak Yen

**Reuters CRB** 294.89 297.70 Down 3.4% YTD.

**Stocks**

The Dow fell by week's end by 20 points or .15% to 13135 while the S&P 500 dropped .32% to 1413. The NASDAQ lost .23% as Apple fell to $509.

European stocks were mixed with Euro Stoxx 600 up .08% for the week though individual country markets did much better with Germany up 1.05% and Belgium up 1.39%.

Asia/Pac stocks continued to climb with the Dow A-P index up .95%. China rallied 4.31% to lead the index higher.

**Weekly Index Performance:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Dow Jones Industrials** | 13,135.01 | -20.12 | -.15% |
| **S&P 500** | 1413.58 | -4.49 | -.32% |
| **NASDAQ Comp** | 2971.33 | -6.71 | -.23% |
| **S&P Mid Cap** | 1001.53 | -1.18 | -.12% |
| **S&P Small Cap** | 461.40 | -.74 | -.16% |
| **Russell 2000** | 823.75 | 1.48 | .18% |
| **Stoxx Euro 600** | 279.40 |  | .08% |
| **Dow Asia/Pacific** | 131.13 |  | .95% |

|  |  |
| --- | --- |
| **Strong Sectors** | Materials, Telecom, Industrials, |
| **Weak Sectors** | Consumer, Energy, Utilities |
| **NYSE Advance/Decline** | 1390 / 1762 |
| **NYSE New High/Low** | 264 / 85 |
| **AAII Bulls/Bears** | 43.23% Bulls / 30.8% Bears Year-end Bull charge |

Have a great week!

Bob

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### From the Desk of Bob Centrella, CFA: December 10, 2012

### " A Look Back at our 2012 Holiday Wish List"

### Tired of trying to figure out this market? Take advantage of our Free Portfolio Review Offer. Call us at 908-344-9790

### Dear Friends:

### First I want to give my annual shout-out to the 1202 Boys. Last Friday (and Thursday for a few of us) a dedicated group of 15+ guys travelling from as far away as CA got together at Wollensky’s Grill for our annual holiday lunch and beyond. For some 26+ years this group of college friends has been gathering for some good, clean fun. Once again, mission accomplished.

### After meeting with my friends this weekend I got nostalgic and decided to take a look back at some of my newsletters from a year ago. I came across our Holiday wish-list from last December 19, 2011. So, I thought it might be fun to see how many of our wishes actually came true. Below is the list along with some commentary following each wish.

### 10. All 10 S&P 500 sectors end up 2012 with a gain. Reality: All ten sectors have produced a gain. Biggest gain is in the financial sector up 25% so far. Smalles gain, Utilities, up 1.5%.

### 9. Crude Oil Prices to drop below $90, putting more money in consumer's pockets. Reality: Oil has been below $90 for some time now and stands at $85.93.

### 8. Reaching an 8% unemployment rate by the end of 2102. Reality: Although employment is still weak, the unemployment level has crept down to 7.7%.

### 7. At least a return to the mean in stock market returns. A 7% return for the S&P 500 would bring it above 1300 by the end of 2012 and

### would also provide us with a 9% total return including dividends. Reality: The S&P 500 is up almost 15% including dividends as of Friday.

### 6. Soft Landing for China and cutting of Chinese interest rates to below 6% (currently at 6.55%). Reality: Although the data out of China is at times suspect, it appears they are averting a hard landing and its benchmark rate is at 6%.

### 5. Italian Bond Yields (and Spanish) dropping below 5% to allow the country to begin the process of getting out from its debt burden.

### Reality: There is still a lot of work to be done but the 10-yr Italian Bond Rate is 4.47% while Spain’s is at 5.45%.

### 4. Four consecutive quarters of positive and growing US GDP Growth. Reality: GDP growth is positive but only averaging 2% over the last 3 quarters.

### 3. A resolution of the European debt crisis and restoration of confidence in the EU as the trio ECB, IMF and EU leaders put their heads

### together to provide a substantive solution. Reality: Well, there has been a lot of progress with some mechanisms put in place to address the problems. However, a lot more needs to be done.

### 2. The dual gift of no more European credit downgrades and a brief or no recession in the EU in 2012. Reality: EU in recession and France debt was recently downgraded. Still getting both.

### 1. One giant compromise between Republicans and Democrats to reach a tax relief and spending deal before the automatic cuts occur in 2013. Reality: Hasn’t happened yet – stay tuned.

### So there you have it and I must say – not too bad. Of our 2012 holiday wish list, almost all wishes have come true or been addressed -- except the 2 biggest issues which remain ongoing; the Euro-debt crisis and the US Fiscal Cliff (er, Monetary Crag). With the stock market up nicely and assuming it holds onto its gain through year-end, investors should have done OK for themselves in 2012. Of course if our politicians decide to throw in the towel on reaching a compromise on the Crag, then we will definitely see a major selloff. Let’s hope our boys in DC reach a deal in a timely fashion and avoid that consequence. In the words of Larry the Cable Guy I have one thing to say to politicians – “Get-er done!”

### NOTE: Over the next few weeks, I’ll see if I can come up with a new Wish List for 2013 and also will reveal the winner of our Reader’s Poll we took at the beginning of the year (a bottle of wine awaits the winner). We’ll also take another poll for next year too.

**\*\*\*Changing jobs or retiring soon? *We are also the 401K/IRA Rollover Specialists. 908-344-9790***

**Economy**

Non-farm payrolls increased 146,000 in November easily beating the consensus expected 85,000. Revisions to September/October subtracted 49,000, bringing the net gain to 97,000. The unemployment rate fell to 7.7% (7.746%) from 7.9% (7.876%).

Initial unemployment claims dropped 25,000 last week to 370,000. Continuing claims for regular state benefits dropped 100,000 to 3.21 million. These figures suggest payrolls will expand in December at a pace at or above the recent trend.

The ISM non-manufacturing index rose to 54.7 in November, coming in well above the consensus expected 53.5. The business activity index rose to 61.2 from 55.4 and the new orders index gained to 58.1 from 54.8. The employment index declined to 50.3 in November from 54.9 while the supplier deliveries index fell to 49.0 from 51.5.

Autos and light trucks sold at a 15.5 million annual rate in November, up 8.7% from October and up 14.7% from a year ago. This is the fastest pace since December 2007.

The ISM manufacturing index declined to 49.5 in November from 51.7 in October, coming in below the consensus expected 51.4.

**Bonds**

Friday Close Prior Week Comment

**10-yr UST yield** 1.63% 1.607%.

**30-yr UST** 2.81% 2.806%

**ML High Yield 100** 5.22% 5.34%

**30-yr Fixed** **Mtg** 3.54% 3.61%.

**Commodities & Currencies**

Friday Close Prior Week Comment

**Gold/oz** $1704.0 $1710.9

**Crude Oil** $85.93 $88.91

**NYMEX Nat Gas** $3.551 $3.561

**$ per Euro** 1.2926 1.29

**Yen per $** 82.49 82.46

**Reuters CRB** 297.70 298.98

**Stocks**

The US Market finished the week mostly higher. The Dow gained 129 points or .99% to 13155 while the S&P 500 was up .13% to 1418. The NASDAQ lost 1.07% this time due to a 9% drop in Apple shares described as tax selling. Small and Mid cap stocks were mixed. Investors are still betting that a deal will be reached by politicians. The annual Santa Rally however is unlikely unless something more concrete comes from DC.

European stocks continued their rally with Euro Stoxx 600 up 1.22% for the week and now is up 14.2% for the year. However, with the potential resignation of Mario Monti in Italy, this could be a volatile week. The German DAX rose 1.5% and now stands 27.5% higher this year.

Asia/Pac stocks climbed with the Dow A-P index up 1.12%. China rallied 4.1% to lead the index higher.

**Weekly Index Performance:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Dow Jones Industrials** | 13,155.13 | 129.55 | .99% |
| **S&P 500** | 1418.07 | 1.89 | .13% |
| **NASDAQ Comp** | 2978.04 | -32.20 | -1.07% |
| **S&P Mid Cap** | 1002.71 | 2.56 | .26% |
| **S&P Small Cap** | 462.14 | -.01 | -0% |
| **Russell 2000** | 822.27 | .35 | .04% |
| **Stoxx Euro 600** | 279.17 |  | 1.22% |
| **Dow Asia/Pacific** | 129.89 |  | 1.12% |

|  |  |
| --- | --- |
| **Strong Sectors** | Financials, Industrials, Energy |
| **Weak Sectors** | Materials, Technology, telecom |
| **NYSE Advance/Decline** | 1499 / 1641 |
| **NYSE New High/Low** | 267 / 64 |
| **AAII Bulls/Bears** | 42.2% Bulls / 34.6% Bears |

Have a great week!

Bob

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***From the Desk of Bob Centrella, CFA: December 3, 2012***

### " The US Market is No Longer the Only Game in Town "

### \*\* also page down for "Italian Wine Tip - Dolcetto"

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### Dear Friends:

### It was a little chilly this weekend but still a good time to get the Christmas decorations out and up on the house. I love this time of year and the many great memories it brings back (and future memories we create for the children too.) I've got this old 20 foot wooden ladder that I use and climb to get the lights up. I know I should get rid of it but it's like a challenge to me to see if I can make it work. Do I try something new or take the old and make it work? I took the old and made it work. OK, so relating this to our government here in DC, the American people decided through the election to take the old and make it work. Specifically in regards to the US "Monetary Crag" that our government faces (see last week's newsletter where I officially retired the term "Fiscal Cliff") . So far there is a lot of posturing but no substance. I got the lights up, so let's hope the same old politicians can figure out a way to make it work too.

### Question – what has been the best market this year in which to invest, the US or outside the US? This past week saw an interesting turnabout that I bet a lot of people didn't see coming. Given all the turmoil in Greece, Spain, France, Italy, etc, one would think that the US market would be the place to hide for investors. The US market, as measured by the S&P 500 has risen 12.6% through November, pretty good by historical standards. However, Europe, as measured by the Stoxx Europe 600, surpassed the S&P last week and now sits up 12.8% for the year. The European market is led by the German DAX which has climbed 25.6% so far. Though growing slowly, the German economy has been stubbornly resilient through all the problems in the Euro area and global German companies are finding enough pockets of strength outside the Euro-zone to increase profits. Other markets in the Euro-zone that have bounced back this year include Belgium (+17%), Switzerland (+15%) and France (+12.6%). Even Italy has managed a 4.8% gain while Spain has pared its loss to -7.4%. Outside of Europe, India is flying with its market up 25% as its economy has bounced back due to government reforms. Hong Kong is also up 19.5% in Asian markets and even Japan has climbed 11.7%. China remains in a slump with its index down 10% as the country’s growth has slowed and it tries to avert a hard landing.

### So what is my point here? I guess my point is that while we are pre-occupied with the aforementioned “Monetary Crag” here in the US and hanging on every sound-bite coming out of Washington, the rest of the world is getting on and offering investors an alternative to the US market. The US market is no longer the only game in town. There was a time not long ago when all the world markets seemed to be almost perfectly correlated and moving in one direction -- DOWN -- taking away the benefits of diversification. Perhaps the markets are finally starting to act somewhat independently again based more on their economies and localized issues rather than being lumped together.

### This is good for the markets and also good for investors. As it was earlier, investors only had a few choices as many of the asset classes were moving together. It seemed like your only way to diversify was with 3 asset classes - you could buy bonds, stocks or Gold as a hedge. It is still early in the game but now it appears that international stocks are finally offering another diversification alternative and an opportunity to invest outside the US without near perfect correlation to the US market. Although Europe is far from working through its mess, I’ve warmed up to investing in their markets and think that the ECB (Euro Central Bank) and European leaders, much like the Fed, will do whatever it takes to keep the Euro afloat and the weak countries from going under. Markets are supposed to be forward looking. If so, the market is starting to tell us that maybe some good times are ahead.

### Now all we need is for the US leaders to recognize that the American people want the old to work. They are under the microscope and they need to make something happen sooner rather than later and solve our Monetary Crag. Easier said than done I know but it’s time for our leaders to lead!

### A Brief Italian Wine Tip

### This weekend I opened a bottle of one of my favorite table wines that I hadn't tasted in a while. It was a 2010 Dolcetto the Alba from Mauro Veglio (about $15). As it's name suggest, Dolcetto comes from the Alba (or Asti) region of Piedmont. Dolcettos are inexpensive and great everyday wines. They have a beautiful dark purple/red color. Lots of fruit, dry and low acidic wines, they are meant to be drunk young (within a year or 2 of release) and pair well with pizza, pasta and meats. I had an easy to prepare meal with which it paired great. I grilled a pork tenderloin seasoned with pepper, salt, garlic and Italian seasonings. After grilling it I put some "Buckin Berry" raspberry chipotle sauce on it for another minute or two on the grill. Throw in some grilled veggies and you have a meal in 15-20 minutes. The wine was awesome with it. Give it a try, a great easy meal and pairing. You can find Dolcetto at most wine stores and prices are reasonable between $13-$18. If you find Mauro Veglio or Michele Chiarlo, these are good produrers I like. However, most Piedmont producers make Dolcetto along with Barbera, Barolo and Barbaresco.

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**Economy**

The big news on Friday was that the US economy actually increased 2.7% last quarter, revised up from 2.2%. This is not a growth spurt, more of an early inventory stocking issue that is likely to reverse next quarter, especially given the effects of Hurricane Sandy.

Speaking of Sandy, consumer spending fell 0.2% in October, the steepest drop in any month since right after the end of cash-for-clunkers in 2009. “Real” (inflation-adjusted) personal spending was down 0.3% in October (-0.5% including downward revisions for prior months) and only up 1.3% from a year ago. Incomes were unchanged in October as private-sector wages & salaries dropped 0.2%, also likely a result of Sandy.

Corporate profits were up 14.8% in Q3 and 8.7% from a year ago.

Top of Form

New claims for jobless benefits declined 70,000 to 3.29 million.

Bottom of Form

New single-family home sales declined 0.3% in October, to a 68,000 annual rate, coming in well below the consensus expected pace of 390,000. Sales are up 17.2% from a year ago.

**Bonds**

Friday Close Prior Week Comment

**10-yr UST yield** 1.69% 1.69%. Yields up on stock rally

**30-yr UST** 2.83% 2.83%

**ML High Yield 100** 5.63 5.63% Prices rally following stocks

**30-yr Fixed** **Mtg** 3.63% 3.63%.

**Commodities & Currencies**

Friday Close Prior Week Comment

**Gold/oz** $1751.3 $1751.3 Gold acting better. Should be part of most portfolios as inflation hedge with all the money being printed.

**Crude Oil** $88.28 $88.28

**NYMEX Nat Gas** $3.901 $3.901 Gas rally continues

**$ per Euro** 1.2976 1.2976 Euro rallied as thought

**Yen per $** 82.40 82.40 Dollar strength

**Reuters CRB** 299.07 299.07

**Stocks**

The US Market finished the week and month on a positive note. The Dow gained 16 points or 13025 while the S&P 500 jumped .5% to 1416, eking out a .28% gain for the month. The NASDAQ rose 1.46% again led by a rally in Apple shares as well as Small and Mid cap stocks. The Russell 2000 jumped 1.83% for the week, a clear sign that investors are putting risk back into their portfolios - possibly in anticipation of the usual small cap strength that occurs at year-end and into January. Investors seem to think that our politicians are going to get a fiscal deal done before year-end.

European stocks continued their rally Euro Stoxx 600 up .9% for the week with almost all markets oddly up between .8% and 1.5%.

Asia/Pac stocks climbed with the Dow A-P index up 1.42%. India rallied 4.5% while China Shanghai fell 2.3%.

**Weekly Index Performance:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Dow Jones Industrials** | 13,025.58 | 15.90 | .12% |
| **S&P 500** | 1416.18 | 7.03 | .50% |
| **NASDAQ Comp** | 3010.24 | 43.39 | 1.46% |
| **S&P Mid Cap** | 1000.15 | 10.26 | 1.04% |
| **S&P Small Cap** | 462.15 | 7.87 | 1.73% |
| **Russell 2000** | 821.92 | 14.74 | 1.83% |
| **Stoxx Euro 600** | 275.78 |  | .90% |
| **Dow Asia/Pacific** | 128.45 |  | 1.42% |

|  |  |
| --- | --- |
| **Strong Sectors** | Utilities, Technology, Consumer |
| **Weak Sectors** | Energy. Financials, telecom |
| **NYSE Advance/Decline** | 1973 / 1193 |
| **NYSE New High/Low** | 289 / 59 |
| **AAII Bulls/Bears** | 40.9% Bulls / 34.36% Bears - Bullish sentiment continues to move up |

Have a great week!

Bob

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***From the Desk of Bob Centrella, CFA: November 26, 2012***

***"Turkey Week Rally - Now back to the Bargaining Table for the Pecuniary Precipice"***

**Tired of trying to figure out this market? *Take advantage of our Free Portfolio Review Offer. Call us at 908-344-9790***

**Dear Friends:**

**I had a late night last night attending the Giants blowout of the Packers at Giants Stadium, so I will keep it short today, not unlike last week's short trading week. Another Turkey day has come and gone along with a successful Black Friday (which actually started on Thursday). The markets had a great week following its usual tradition of rising during Thanksgiving week with the S&P 500 bouncing back from oversold levels and rising 3.6% with markets all over the world following. With Congress in recess, the was a void of news coming from Washington so the market was able to continue its move higher and also reacted positively to consumers out shopping in force. Interestingly, after today's Cyber Monday shopping spree, it is estimated that 44% of the US population will have shopped by the end of today. I'll even admit to doing some shopping on Friday -- though I did it midday and still found a good deal.**

**Last week I gave you a bunch of random thoughts mostly pertaining to the fiscal cliff and asked for some alternate names. Well I didn't get any responses so either nobody cares or you didn't have the time to come up with something. So, I decided to do a little research and would like to offer some new terms. As our new term for the overused "fiscal cliff" I offer the following:**

**- Budgetary Bluff - after all, this is a big game of bluff by politicians on both side of the aisle**

**- Monetary Crag - I just like the term "crag"**

**- Pecuniary Precipice - my front-runner. It really flows off the mouth**

**Look for the markets to give back some gains this week as talks resume in DC. The markets could be volatile depending on the soundbite of the day. Don't expect much movement on issues immediately. I would be shocked to see a deal anytime soon. But look for some sort of bone to be thrown to investors to indicate that there maybe is some progress. And then let's hope the politicians and the President take care of the Pecuniary Precipice and not continue with their Budgetary Bluff so we don't have a real Monetary Crag! That's all for today folks.**

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**Economy**

The week's economic data show a housing market that appears to be in recovery mode:

Housing starts rose 3.6% in October to 894,000 units at an annual rate, easily beating the consensus expected 840,000 pace. Starts  
are up 41.9% versus a year ago. New building permits fell 2.7% in October to an 866,000 annual rate, slightly beating the consensus expected pace of 864,000. Compared to a year ago, permits for single-unit homes are up 26.6% while permits for multi-family units are up 36.3%.

Existing home sales rose 2.1% in October to an annual rate of 4.79 million units, coming in slightly higher than consensus expectations.  
Sales are up 10.9% versus a year ago. The months' supply of existing homes (how long it would take to sell the entire inventory at the current sales rate) fell to 5.4 in October from 5.6 in September. The inventory of existing homes fell to 2.14 million in October from 2.17 million in September, the lowest level since December 2002. Inventories are down 22% from a year ago.

Overseas, French sovereign debt was downgraded one notch by Moody's and the Greek debt package was negotiated. The market shrugged off both of these issues as well as the Israel/Hamas war and eventual ceasefire.

**Bonds**

Friday Close Prior Week Comment

**10-yr UST yield** 1.69% 1.57%. Yields up on stock rally

**30-yr UST** 2.83% 2.734%

**ML High Yield 100** 5.63 5.87% Prices rally following stocks

**30-yr Fixed** **Mtg** 3.63% 3.62%.

**Commodities & Currencies**

Friday Close Prior Week Comment

**Gold/oz** $1751.3 $1714.3 Gold acting better. Should be part of most portfolios as inflation hedge with all the money being printed.

**Crude Oil** $88.28 $86.67

**NYMEX Nat Gas** $3.901 $3.790 Gas rally continues

**$ per Euro** 1.2976 1.2743 Euro rallied as thought

**Yen per $** 82.40 81.31 Dollar strength

**Reuters CRB** 299.07 293.56

**Stocks**

The US Market continued on a tradition of rallying during the Thanksgiving week. The Dow gained 421 points or 3.4% to 13009 while the S&P 500 jumped 3.6% to 1409. The NASDAQ rose 3.99% led by a rally in Apple shares. After reaching an intraday low of $505 the prior Friday, Apple rallied 13% to 571.50 from the low, including 8.3% last week. Small and mid-cap stocks also joined the party with various indexes rising close to 4% on the shortened trading week. Investors reacted positively to the perception that DC politicians might be willing to work together to reach a fiscal compromise.

European stocks shook off a downgrade of France's sovereign rating and Greek debt negotiations to climb higher. EU followed US markets with the Euro Stoxx 600 up 3.98% for the week. Markets were up across the board led by France up 5.6% and Germany up 5.16%. Germany is now up 23.6% on the year.

Asia/Pac stocks climbed with the Dow A-P index up 2.34%. Hong Kong rallied 3.57% and Japan continued its rise climbing another 3.8%.

**Weekly Index Performance:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Dow Jones Industrials** | 13,009.68 | 421.37 | -3.35% |
| **S&P 500** | 1409.15 | 49.27 | 3.62% |
| **NASDAQ Comp** | 2966.85 | 113.72 | 3.99% |
| **S&P Mid Cap** | 989.89 | 36.96 | 3.88% |
| **S&P Small Cap** | 454.28 | 16.83 | 3.85% |
| **Russell 2000** | 807.16 | 30.90 | 3.98% |
| **Stoxx Euro 600** | 273.33 |  | 3.98% |
| **Dow Asia/Pacific** | 126.65 |  | 2.34% |

|  |  |
| --- | --- |
| **Strong Sectors** | Materials, Technology, Consumer |
| **Weak Sectors** | Utilities, HC, Industrials |
| **NYSE Advance/Decline** | 2804 / 362 |
| **NYSE New High/Low** | 183 / 77 |
| **AAII Bulls/Bears** | 35.8% Bulls / 40.8% Bears - Jump in bullish sentiment on rally |

Have a great week!

Bob

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***Bob Centrella, CFA***Managing Partner  
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***From the Desk of Bob Centrella, CFA: November 19, 2012***

***"Lots of Random Thoughts"***

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**Dear Friends:**

**First, I hope you all have a great Turkey Day. Regardless of the market situation, I know that we still have plenty to be thankful for in life. Thanksgiving usually means good food, good drink, football and sharing stories with family and friends. Although I miss the old days of playing football with my friends prior to feasting on the bird, I now like relaxing with a glass of wine and catching a game on TV, before and after. Speaking of wine, it is often difficult to pair a good red with Turkey. However, I have found (thru much trial and error) that a good Red Zinfandel is the best match with possibly a Pinot Noir a close second and a Syrah also in the mix. Although I love Italian Reds, I haven't found a great match although a Primitivo is probably the closest (this is the Italian Zin). Since it is tough to pair just one wine, try 2 or 3 through the meal. Hearty wines generally don't work as well and of course there are also several good whites you can use, though personally I'm not much of a white drinker (I'm told that Reisling and Sauv Blanc are good white pairs).**

**This week I was trying to come up with a theme and I found myself with too many random thoughts through my reading. So, my theme will be Random Thoughts (mostly about the Fiscal Cliff). So in no particular order, here are a bunch of things that keep my mind occupied regarding the markets and the economy:**

* **Are you tired of the term "Fiscal Cliff" yet? We need a new term. One term I heard was "Taxageddon". Not bad. Send me an email if you have any good ideas.**
* **Investors face an investment conundrum - safety of US Treasuries versus volatility of stocks. The conundrum is that if a deal is reached, Treasury prices will likely decline while stocks will jump. However, in the meantime, stocks are dropping and likely to go lower unless progress is made. When do you get out (if not already) and when do you get back in? If you feel a deal will happen, stay the course and ride the volatility.**
* **The market has declined over 5% since the election and the NASDAQ is in correction territory down for 6 weeks in a row, the most in 3 years.**
* **Politicians from both sides of the isle finally seem to grasp the severity of the fiscal cliff and at least are talking about a compromise. There seems to be a recognition (after the market dove) that investors are impatient and need to see progress.**
* **I think the market is oversold but unless a deal is reached it can get worse. Look for continued volatility as investors digest the daily info coming from DC.**
* **High dividend stocks are particularly oversold and offer a good risk/reward here.**
* **Cyclical stocks such as technology, basic material and industrial stocks have also sold off the hardest and stand to bounce on any positive news.**
* **Investors definitely are taking capital gains but do not seem to be re-investing immediately. Institutional investors are under-invested in equities and Retail investors probably the same. Look for the market to pop if a deal is reached.**
* **Companies are cutting back on investment and spending less until they get more clarity.**
* **Even a cliff deal is still likely to lead to lower growth due to austerity measures. However, you could also get a burst of activity due to pent-up demand from companies and consumers.**
* **Europe GDP declined for the 2nd quarter in a row as the EuroZone remains in recession. Only France and Germany, among the major countries showed any growth and it was minor.**
* **The big holiday retail season is about to start in the US beginning on Black Friday - will consumers step-up or pull back? My guess if that there will be a lot of bargain hunting.**
* **Fighting is intensifying in the Middle East. This could get really ugly and I don't think has affected the market too much yet.**
* **This week, Euro leaders and the IMF meet to decide on whether to release a chunk of cash to Greece. The market is reacting positively in anticipation.**
* **Hurricane Sandy has already impacted weekly economic numbers and will continue to impact going forward. How bad will it be and how much is already baked into the market?**
* **AAII bearish sentiment has gone thru the roof with retail investors 48% bearish. As a contrary indicator this is bullish for equities.**
* **The Fed's Operation Twist is scheduled to come to a close at the end of the year and the Fed must decide whether to continue or come up with an alternate program. (Currently the Fed buys lon-dated USTs while simultaneously selling short term.)**

**So there are my random thoughts. Most deal with the fiscal cliff which is foremost in investors minds. The market is up today as investors maybe think that a deal can be reached or the framework can be agreed upon which will relieve some of the uncertainty. Personally, I am hopeful that this is not hot air coming from Washington and they will first announce a "down payment" on the deal by agreeing to something, then give us a framework or more positive rhetoric that investors can hang onto. If that happens, this market jumps as under-invested investors chase stocks. If it doesn't happen or investors don't like the progress, look for more selling of stocks and a rush to Treasuries. Again, the investment conundrum...**

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**Economy**

Industrial production declined 0.4% in October coming in below the consensus expected gain of 0.2%. Production is up 1.8% in the past  
year.

Overall capacity utilization moved down to 77.8% in October from 78.2% in September. Manufacturing capacity use fell to 75.9% in  
October from 76.7% in September.

The Consumer Price Index (CPI) was up 0.1% in October, exactly as the consensus expected. The CPI is up 2.2% versus a year ago.

Retail sales declined 0.3% in October, close to the consensus expected -0.2%. Sales were also -0.3% including revisions for  
August/September. Retail sales are up 3.8% versus a year ago.

**Bonds**

Friday Close Prior Week Comment

**10-yr UST yield** 1.57% 1.613%. Yields drop as risk-off rises

**30-yr UST** 2.734% 2.749%

**ML High Yield 100** 5.87 5.64% Prices drop following stocks

**30-yr Fixed** **Mtg** 3.62% 3.61%.

**Commodities & Currencies**

Friday Close Prior Week Comment

**Gold/oz** $1714.3 $1731.3

**Crude Oil** $86.67 $86.07

**NYMEX Nat Gas** $3.790 $3.503 Gas spiked on weather

**$ per Euro** 1.2743 1.2711 Euro could rally this week

**Yen per $** 81.31 79.49 Dollar strength

**Reuters CRB** 293.56 292.22

**Stocks**

The US Market continued its nosedive due ti continued concerns over the fiscal cliff. However, Friday the market reversed positive after political leaders talked constructively about reaching a deal before year-end. The Dow dropped 227 points to 12,588 and is now down 7.5% from 2012 highs. The S&P 500 fell 1.45% to 1359.88 and is off about 7% from its high and 5% since the election. It remains up 8.1% for the year. The NASDAQ fell for the 6th straight week (down 1.78% to 2853 and is officially in correction territory having fallen 10% since reaching its high. Small and mid-cap stocks are also in correction territory since reaching 2012 highs in October.

European stocks followed US markets with the Euro Stoxx 600 down 2.74% for the week after not surprisingly results were released showing the economy in recession. The Netherlands fell 3.64% and Germany dropped 2.97% for the week. For the year, the Stoxx 600 is up 7.5% with Germany leading all major markets up 17.8% YTD.

Asia/Pac stocks fell 1.27% with China down 2.63% while Japan surged ahead 3.04% bucking the trend.

**Weekly Index Performance:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Dow Jones Industrials** | 12,588.3 | -227 | -1.77% |
| **S&P 500** | 1359.88 | -19.97 | -1.45% |
| **NASDAQ Comp** | 2853.13 | -51.74 | -1.78% |
| **S&P Mid Cap** | 952.93 | -16.89 | -1.74% |
| **S&P Small Cap** | 437.45 | -10.29 | -2.30% |
| **Russell 2000** | 776.28 | -18.74 | -2.36% |
| **Stoxx Euro 600** | 262.86 |  | -2.74% |
| **Dow Asia/Pacific** | 123.76 |  | -1.27% |

|  |  |
| --- | --- |
| **Strong Sectors** | Healthcare, Utils, Consumer |
| **Weak Sectors** | Materials, Tech. Industrials |
| **NYSE Advance/Decline** | 671 / 2512 |
| **NYSE New High/Low** | 133 / 392 |
| **AAII Bulls/Bears** | 28.8% Bulls / 48.8% Bears - Big jump in bearish sentiment - actually positive for stocks |

Have a great week!

Bob

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***From the Desk of Bob Centrella, CFA: November 12, 2012***

***"No Fiscal Cliff Deal? -Then ARGO \_\_\_\_ Yourself!"***

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**Dear Friends:**

**Americans spoke on Tuesday and I sit here today eating some crow as I predicted that President Romney would be leading us following the election. I think investors were surprised too since the stock market dove 3% the following 2 days giving Obama a not so warm welcome back. On the positive side, most of us in the tri-state area have power and personally we had no damage to contend with unlike many others. I also have gas for sale, so if you are in Westfield stop by the Centrella filling station**

**Last weekend my wife and I went to see the movie Argo. The movie is about the Iran hostage crisis and as we watched it I found myself trying to recall what I could remember of the crisis. The time-line of 1979-80 I was just starting my Freshman year in college and that was sort of a blur. (Although it is not an action-packed type movie, it is intense and I highly recommend it if you haven’t seen it yet.) Of course it also got me thinking about how investors have been held hostage over the past few years to various scenarios from the US debt ceiling fiasco in 2011 to the European debt crisis. And now once again we are held hostage to the Fiscal Cliff wrangling of Democrats and Republicans. If you have seen the movie, there is a classic line that the 3 lead characters repeat to each other, and I would like to utter that same line to our politicians if they don’t get this resolved sooner rather than later.**

**Now that all eyes are firmly on the fiscal cliff (as I mentioned it would be several months ago, btw) it appears that the biggest obstacle to a deal is the tax side as opposed to the spending reductions. Just to reiterate, there are an estimated $475 billion is expiring tax cuts and similar amount of mandated spending cuts that take place starting Jan 1. If nothing is done, it is estimated that the US economy will go from a 2% growth scenario to a -1% recession. We are also going to be subject to the Deal/No Deal saga of the 2 parties as they give and take to arrive at a compromise. Although I am a political conservative, after seeing the election and who voted where, it seems that at least half of the wealthiest Americans voted for Obama. So I’m starting to change my thinking and wondering why are the Republicans fracturing their base by throwing their support to this group? Do Republicans really want to defend the Hollywood liberals? My guess is that the $250K limit that Obama talks about will be moved higher and then a deal will be made. Either way, Democrats have convinced the majority of Americans that wealthier taxpayers should pay a larger share and defending the wealthy is perhaps not worth it for Republicans to hang their hat on. (Sorry, the truth hurts.)**

**So this week and moving forward I am sure the market will show some volatility and investors will take profits on big winners in anticipation of the repeal of the capital gains taxbreak (see Apple’s 20% dive). It may be a tough period for buy and hold investors. It might take a large move down in the stock market to get politicians to act (like the failed TARP vote in 2008 and the previously mentioned debt ceiling fiasco in 2011). Let’s hope it doesn’t come to that but if you are concerned and don’t have the patience to ride it out, I suggest taking some long-term gains and moving a little more money to the sidelines.**

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**Economy**

The trade deficit in goods and services came in at $41.5 billion in September, much smaller than the consensus expected $45.0 billion

Exports rose $5.6 billion in September, while imports rose $3.3 billion. The increase in exports was led by petroleum products and  
soybeans. The rise in imports was led by cell phones and other household goods, fuel oil, and civilian aircraft.

The ISM non-manufacturing index declined to 54.2 in October, coming in below the consensus expected 54.5.

**Bonds**

Friday Close Prior Week Comment

**10-yr UST yield** 1.613% 1.73%. Yields drop as risk-off rises

**30-yr UST** 2.749% 2.92%

**ML High Yield 100** NA 5.56%

**30-yr Fixed** **Mtg** 3.61% 3.65%.

**Commodities & Currencies**

Friday Close Prior Week Comment

**Gold/oz** $1731.3 $1674.1 Gold rebounded as a hedge

**Crude Oil** $86.07 $84.86

**NYMEX Nat Gas** $3.503 $3.554

**$ per Euro** 1.2711 1.29838 Euro dropping again

**Yen per $** 79.49 80.43

**Reuters CRB** 292..22 292.29

**Stocks**

The US Market dove after the election with the Dow down 2.12% to 12815, the S&P 500 off 2.43% to 1379 and the NASDAQ off 2.59% to 2904. Some of the biggest losers were high-dividend paying stocks like Utilities that would be less attractive if the qualified dividend exemption is lifted. Apple dove again and is now in its own bear market having dropped 20% from its high. Stocks with large gains over the past year may become subject to more selling as investors lock-in the 15% LT gains rate.

European stocks followed US markets with the Euro Stoxx 600 down 1.67% for the week. Italy dropped 3.73% and Spain -4.17%.

Asia/Pac stocks fell 1% with China down 2.27% and HK down 3.29%.

**Weekly Index Performance:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Dow Jones Industrials** | 12,815 | -278 | -2.12% |
| **S&P 500** | 1379.85 | -34.35 | -2.43% |
| **NASDAQ Comp** | 2904.87 | -77.26 | -2.59% |
| **S&P Mid Cap** | 969.82 | -17.98 | -1.82% |
| **S&P Small Cap** | 447.74 | -9.6 | -2.1% |
| **Russell 2000** | 795.02 | -19.35 | -2.38% |
| **Stoxx Euro 600** | 270.27 |  | 1.6% |
| **Dow Asia/Pacific** | 125.35 |  | .76% |

|  |  |
| --- | --- |
| **Strong Sectors** | Industrials, Materials, Consumer |
| **Weak Sectors** | Telecom, Utils,Financials |
| **NYSE Advance/Decline** | 876 / 2294 |
| **NYSE New High/Low** | 275 / 186 |
| **AAII Bulls/Bears** | 38.5% Bulls / 39.9% Bears |

Have a great week!

Bob

***Bob Centrella, CFA***Managing Partner  
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***From the Desk of Bob Centrella, CFA: November 5, 2012***

***"Still No Power - Election Day Coming, Go Vote"***

**Dear Friends:**

**I sit here at my desk in my ice-cold den writing this amid the constant hum of portable generators in the background. The generator hum can be heard in our town no matter where you are except for those lucky blocks that have power. We made it through Irene last year with power but this time not so lucky - Sandy brought much more devastation to the tri-state area. I've been strategically finding and buying 5-gal gas cans (these are silver and the gas itself is gold) and making gas runs to power up the portable genny. My neighbor has called me a mini-OPEC. I think I have enough gas where I can now possibly control gas prices by releasing some from my strategic reserve into the marketplace. Or perhaps I will start a physical-oil ETF backed by my stash of red and blue cans. But life must go on and we have an important week ahead of us with the election Tuesday and my 25th wedding anniversary on Wednesday! We're hoping to have a dual celebration on Wednesday night.**

**I will go out on a limb and predict an upset tomorrow with Romney taking both the popular and electoral vote. I think the fact that the polls are this close is a positive for the Republican as clearly the polls tend to lean to the left. (Remember the Bush / Dukakis deadlock polls and Bush ran away in a landslide.) I don't think it will be a landslide but it seems that President Obama has not delivered any of the goods in 4 years and the American people will not come out in droves to support him like they did in the anti-Palin vote. Hose will remain Republican and Senate by a narrow margin stays to the Left and unfortunately at least 2 more years of Harry Reid.**

**The past week got off to a late start as the markets were closed for 2 days due to the storm. Then a big rally on Thursday was basically wiped out on Friday to leave the week little changed. Earnings for companies continue to be mixed to negative with the latest stat showing that 61% of companies that have reported fell short of Revenue estimates. It is simply difficult to grow when people and business aren't buying and selling. A few more big companies will report this week but most of the larger companies have reported.**

**After the election, the handling of the fiscal cliff becomes the main focus. Many pundits talk about a relief market rally post-election, however history actually does not support this theory. The November following the last 10 elections has seen the market rise 5 times and fall 5 times. So the only pattern is that there is no pattern. This time I think any rally will be limited until the fiscal house can be put into some kind of order. If Romney wins as I predict, I do think a mini Romney rally is possible since that is not expected in the market.**

**So please say a prayer for all of us without power especially now that another Nor'easter storm is predicted to hit on Wednesday. If we don't have power by then it is going to be very difficult on the area. And be sure to go out and VOTE.**

***My fingers and officially frozen so see you next week.***

***\*\*\*We are also the IRA Rollover Specialists. 908-344-9790***

**Economy**

The Friday jobs report came in with an increase of 171K nonfarm jobs but an uptick in unemployment to 7.9%.

The ISM Mfg index rose to 51.7 in Oct from 51.5 in Sept signalling expansion.

**Bonds**

Friday Close Prior Week Comment

**10-yr UST yield** 1.73% 1.756%.

**30-yr UST** 2.92% 2.911%

**ML High Yield 100** 5.56% 5.37%

**30-yr Fixed** **Mtg** 3.65% 3.71%.

**Commodities & Currencies**

Friday Close Prior Week Comment

**Gold/oz** $1674.10 $1710.9

**Crude Oil** $84.86 $86.28

**NYMEX Nat Gas** $3.554 $3.400

**$ per Euro** 1.2838 1.2942

**Yen per $** 80.43 79.65

**Reuters CRB** 292.29 296.84

**Stocks**

The US Market was mixed with the Dow down .11% to 13093, the S&P 500 up .16% to 1414 and the NASDAQ off .19% to 2982.

European stocks rose with the Euro Stoxx 600 up 1.6% for the week. The German DAX rose1.83% and Spain climbed 2.49%.

Asia/Pac stocks rose .76% with China up 2.46%.

**Weekly Index Performance:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Dow Jones Industrials** | 13,093 | -14.05 | -.11% |
| **S&P 500** | 1414.20 | 2.26 | .16% |
| **NASDAQ Comp** | 2982.13 | -5.82 | -.19% |
| **S&P Mid Cap** | 987.8 | 13.06 | 1.34% |
| **S&P Small Cap** | 461.28 | 6.84 | 1.51% |
| **Russell 2000** | 814.37 | 1.12 | .14% |
| **Stoxx Euro 600** | 274.85 |  | 1.6% |
| **Dow Asia/Pacific** | 126.63 |  | .76% |

|  |  |
| --- | --- |
| **Strong Sectors** | Industrials, Financials, Consumer |
| **Weak Sectors** | Energy, Utils, HC |
| **NYSE Advance/Decline** | 1919 / 1222 |
| **NYSE New High/Low** | 318 / 87 |
| **AAII Bulls/Bears** | 35.74% Bulls / 40.98% Bears - Bulls gained 6%. |

Have a great week!

Bob

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**If you recently left your job or know someone who has, give us a call.** [**Click Here to Contact us for a Consult on rolling over your qualified plan**](http://forzainvestment.com/Contact_Us.html)\*\*\*

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### From the Desk of Bob Centrella, CFA: October 29, 2012

### "Storm Hits Already - Earnings Storm That Is"

### Tired of trying to figure out this market? Take advantage of our Free Portfolio Review Offer. Call us at 908-344-9790

### Dear Friends:

### For us on the east coast, it sort of feels surreal just waiting for the big storm to hit. It was kind of a normal weekend other than tying down everything in the yard and putting away umbrellas and anything else that could turn into a projectile. The way I see it, I got an early start on my winter storage. The stock market is closed today as is just about everything else back east. Maybe this waiting on the storm can be viewed as a precursor to waiting on 2 other events that could shape our future - the election and the fiscal cliff. In all three cases, we don't know what the outcome will bring but we are all anxious to get it over with. One event that did finish rather quickly was the World Series. Congrats to my SF Giants for rapidly dispatching the Detroit Tigers. Although I count myself as a Yankee fan, I was born and raised a fan of the Giants thanks to our family's love of the Willie's - Mays and McCovey. The Giants played baseball like it was supposed to be played - great defense, strong pitching and timely hitting. All while having a ton of fun in the dugout.

### As the East Coast braced for Frankenstorm last week the market had its own storm of sorts - the earnings storm. Stock prices fell broadly and sharply last week as a result of weak corporate earnings reports coupled with continuing anxiety over the US fiscal cliff. Pick your sector and you could find a weak earnings report including the largest company in the land - Apple. The common themes among the companies that I tracked were as follows: current quarter EPS that were often in-line, slightly better or off by a few cents; revenues that missed consensus; future guidance that was below consensus for both revenues and earnings. For multinational companies the twin culprits were weakness in Europe and foreign currency translation hits. US growth was also weak but generally in-line with guidance. Another worrisome announcement made by several large companies including Dupont, Kimberly Clark, Colgate and Dow Chemical among others, was that they would be cutting jobs amid a global slowdown. Although not all the jobs lost would be here in the US, many would be and that is not what we want to hear when so many Americans are struggling to find work.

### Speaking of Apple earlier, the stock is now down almost 100 points or about 14% in the last 45 days as initial hype and euphoria over the release of the I-Phone 5 and I-Pad Mini has faded. I generally don't like to talk about individual securities except with clients but I would like to point out a few things about Apple that make it seem attractive to me. First, a disclaimer that I do own Apple shares for my clients. Currently it trades at about 14x trailing earnings, cheaper than the 15.8x at which the S&P 500 trades. Next year's EPS are expected to grow 18% so the stock trades at 10x 2013 earnings compared to the S&P 500 which is at 12.9x and the earnings estimates are still coming down for the market. Apple has $100 Billion in cash/securities and no debt. Adjusted for cash, the stock trades at 8x 2013 earnings. This for a company that has been the most successful and innovative R&D story ever given that it is the largest company in the universe. Oh, and they just initiated a dividend (1.8%) that will only get bigger going forward. Now there are many risks with owning Apple and before owning it all investors should understand those risks involved. The biggest of which is probably greater competition from the likes of Amazon, Microsoft, Samsung and others. I will not go into a full discussion of the stock but I felt it compelling enough to mention that I think Apple itself is on sale and is worth you doing your homework on it.

### So with the market closed today and electricity on the blink, that's all for now.

### See you next week.

**\*\*\**We are also the IRA Rollover Specialists. 908-344-9790***

**Economy**

The final US GDP number was released before the election showing growth of 2% last quarter. Interestingly, the Private-sector GPD growth was only 1.3% so the bulk of the growth came from federal government defense spending. Since the 3rd quarter of 2009, only 2 quarters have shown GDP growth of better than 3%.

**Bonds**

Friday Close Prior Week Comment

**10-yr UST yield** 1.756% 1.766%. Awaiting the election like everything else

**30-yr UST** 2.911% 2.936%

**ML High Yield 100** 5.37% 5.44% Yield is still the best in town

**30-yr Fixed** **Mtg** 3.71% 3.67%. Mortgage rates hold steady

**Commodities & Currencies**

Friday Close Prior Week Comment

**Gold/oz** $1710.9 $1722.8

**Crude Oil** $86.28 $90.05 Not showing up at the pumps though

**NYMEX Nat Gas** $3.400 $3.617

**$ per Euro** 1.2942 1.3023

**Yen per $** 79.65 79.32

**Reuters CRB** 296.84 306.05

**Stocks**

The US Market fell broadly and sharply with the Dow down 1.77% to 13107, the S&P 500 down 1.48% to 1411.9 and the NASDAQ off .59% to 2987.95.

European stocks dropped with the Euro Stoxx 600 down 1.3% for the week. Weakness was everywhere with the German DAX off 2.02%.

Asia/Pac stocks fell 1.52% with Taiwan down 3.7% and China off 2.92%.

**Weekly Index Performance:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Dow Jones Industrials** | 13,107 | -236 | -1.77% |
| **S&P 500** | 1411.9 | -21.25 | -1.48% |
| **NASDAQ Comp** | 2987.95 | -17.67 | -.59% |
| **S&P Mid Cap** | 974.74 | -12.66 | -1.28% |
| **S&P Small Cap** | 454.44 | -4.36 | -.95% |
| **Russell 2000** | 813.25 | -7.75 | -.94% |
| **Stoxx Euro 600** | 270.51 |  | -1.3% |
| **Dow Asia/Pacific** | 125.67 |  | -1.52% |

|  |  |
| --- | --- |
| **Strong Sectors** | tech, HC, Industrials |
| **Weak Sectors** | Energy, Materials, Financials |
| **NYSE Advance/Decline** | 1151 / 1998 |
| **NYSE New High/Low** | 231 / 113 |
| **AAII Bulls/Bears** | 29.25% Bulls / 43.0% Bears |

Have a great week!

Bob

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### From the Desk of Bob Centrella, CFA: October 22, 2012

### "Market falls sharply on Friday but still mostly up for the week"

### Tired of trying to figure out this market? Take advantage of our Free Portfolio Review Offer. Call us at 908-344-9790

### Dear Friends:

### First, a moment of silence for the Yankees. For anyone who watched the series, there was plenty of silence in the Yankee bats. A pathetic display of non-hitting. Congrats to the Tigers. I still have a horse in the race though as I am a longtime SF Giants fan too. Game 7 tonight will be up against the final Pres debate. You could tune-in tonight for the final Presidential debate to see the fireworks continue. But I think there may be better theater in the Giants/Cardinals finale. The last debate almost turned into a sparring match at times and it will be interesting to see how this one on foreign policy, supposedly an Obama strength, will shake out. The election seems to be a dead heat at the moment, which probably means Romney is ahead. By the way, if you haven’t seen the clips of the recent dinner/roast held at the Waldorf in NY last week, you should Google it and listen. It was pretty funny. (Here’s a link to the You-tube version <http://www.youtube.com/watch?v=QsSzkCgcBtU>).

### The market took its biggest tumble in 4 months on Friday, the 25th anniversary of the crash of 1987. The Dow dropped 205 points while the Nasdaq shed 2% and the S&P 500 fell 1.66%. The market reacted negatively to a slew of weak EPS reports from the likes of bell-weather multinationals including McDonalds, IBM, Microsoft, General Electric and a pre-announcement from Google on Thursday that wasn’t supposed to happen until after the market closed. Still, the S&P 500 finished the week up slightly due to gains earlier in the week.

### Given all the negative undercurrents (US Election, fiscal cliff and economic malaise, Euro debt crisis and recession, Asian economic weakness…), the market appears to be stuck in a trading band. Thanks to the backstop due to the US, ECB and Japan central bank easing actions, a floor seems to exist on the market but continued weak earnings does threaten further market upside. I’m not too surprised that stocks are reacting so negatively to weak earnings but it should have been clear to investors that earnings and sales would be weak given the macro-environment. But frankly, I was a bit concerned heading into earnings season that investors were still expecting too much although analysts had taken down their estimates. So far, only 42% of companies reporting have beat on revenues. By far the worst we’ve seen so far since 2009. Not surprisingly, multinational companies are running into demand issues due to weakness overseas. It will be interesting to see how US-centric companies such as retailers and Hotels perform. Although the US economy is weak, it still may be the best house on the block.

### Continuing on the theme from last week, I would like to present another article on the fiscal cliff. The following article was written before the 2nd debate and assumed there would be some discussion of this major issue. But again, I was very disappointed that there was barely a mention of the fiscal cliff in the last debate, and given that tonight is on foreign policy, it is unlikely we will hear the plans of the two contenders for dealing with it.

### THE FISCAL CLIFF: WHO HAS THE MOST TO LOSE IF WE FALL OFF

### By: Bruce Watson, 10/15, [Dailyfinance.com](http://dailyfinance.com/)

### On Tuesday night, President Obama and former Massachusetts Gov. Mitt Romney will meet for their second debate. The bout over foreign and domestic policy should be an interesting engagement: Romney hopes to consolidate his gains from the first debate, while the president hopes to make up some of the ground he lost.

### But beyond the land of debate prep, the political arena is getting hotter. The "fiscal cliff" -- a pending economic catastrophe that is haunting the election -- is drawing closer, and pundits have already begun talking about the specific ways in which it will hit the economy. The [Tax Policy Center](http://www.taxpolicycenter.org/publications/url.cfm?ID=412666) has announced that, if we hurtle over the fiscal cliff, the average middle class family would pay an additional $1,984 in taxes in 2013.

### The number brings to mind George Orwell, the patron saint of political satire; [1984](http://www.amazon.com/Nineteen-Eighty-Four-George-Orwell/dp/B000O9K2HS/ref=sr_1_7?s=books&ie=UTF8&qid=1349725522&sr=1-7&keywords=nineteen+eighty-four), after all, is the title of Orwell's famous novel of bureaucratic evil run amok. But today, just as in Orwell's dystopia, the most important thing isn't what is being said, but what is not. Because, while the $1,984 sum is impressive, it hides the true cost of the fiscal cliff, a precipice that will punish all families, but some more than others.

### Yes, the average middle-class family will pay $1,984 more, but the fiscal cliff will cost the average family overall $3,446, almost twice as much. The huge gap between those two numbers reveals the wide difference between middle class and upper class tax breaks -- and hints at the grand class battle that awaits Washington after November's elections.

### The average family, though, will kick in an extra $3,446, because -- in terms of straight percentages -- the tax increases will hit families higher up the income ladder much harder than those in the middle or at the bottom. And that massively skews the average. In this regard, the fiscal cliff is somewhat progressive, landing harder upon the rich. For families in the first four quintiles -- groups that could be described as "poor," "working class," "middle class," and "upper middle class," the potential fiscal cliff tax increase percentages range from 3.7% to 4.2%. For the richest 20% of households, however, the tax increase would a far steeper 5.8%.

### He Who Controls the Purse Controls the FutureThe definition of "middle class" varies greatly depending on who is talking, but strictly by the income numbers, the third quintile is the middlest of the middle. Households within this 20% of the populace make between $38,521 and $62,434 per year, and average $50,477. At that level, a tax increase of $1,984 works out to another 3.8% of every paycheck that goes to the taxman.

### All Taxpayers Are Equal ... But Some Are More Equal Than Others A large factor in this uneven impact relates to which specific tax breaks will expire if we reach the fiscal cliff. While analysts tend to lump all these tax changes together to simplify to discussion, the issues in play are actually a widely disparate collection of specific tax deals that unevenly benefit various groups. The payroll tax cut, for example, is most beneficial for households making less than $110,000 per year. Others, like the Bush tax cuts, benefit all income groups, but pay off more for the wealthy.

### And then there are the tax breaks that specifically benefit the wealthiest taxpayers: as it stands, many of these will disappear on Jan 1, 2013. Perhaps the most obvious is the estate tax. In 2009, the first $3.5 million of an estate was untaxed, and the remainder was taxed at a top rate of 45%. The following year, the tax was zeroed out, effectively granting a tax holiday to wealthy families whose members died. When the tax returned in 2011, the "exclusion amount" rose to $5 million -- and later to $5.12 million in 2012 -- while the top rate on amounts exceeding that dropped to 35%. In 2013, assuming the fiscal cliff comes to pass, the exclusion amount will fall to $1 million and the top rate will rise to 55%

### Even at this new, much lower level, the estate tax will only hit 2% of those who die in 2013. So for middle and lower-class families, this change will be academic, but for households at the top of the pyramid, it will hit hard. The same is true of the Bush's 2001 high-income tax cuts and the preferential capital gains and dividend tax rates that he pushed through in 2003. Combined with other tax increases, the repeal of these tax breaks will cost the richest 20% of families an average of $14,173 each. For taxpayers in the top 1%, the cost rises to just over $120,000 -- or more than 7% of their income.

### Ultimately, both parties are hoping that the November elections will give them an edge in the fiscal cliff fight -- and until Nov. 7, it's impossible to predict the shape of the deal that will (we hope) be struck by the president, the House of Representatives and the Senate. Regardless of what happens in Washington's version of Animal Farm, however, one thing is clear: When it comes to taxes and the fiscal cliff, the richest Americans have a lot more to lose than the rest of us -- a fact that their highly-paid lobbyists in Washington are sure to have in mind come December.

### That's all for now. See you next week.

**\*\*\**We are also the IRA Rollover Specialists. 908-344-9790***

**Economy**

Existing home sales declined 1.7% in September to an annual rate of 4.75 million units, exactly matching consensus expectations. Sales are up 11.0% versus a year ago. The months’ supply of existing homes (how long it would take to sell the entire inventory at the current sales rate) fell to 5.9 in September from 6.0 in August. The decline in the months’ supply was all due to a drop in single-family inventories.

Housing starts soared 15.0% in September to 872,000 units at an annual rate, crushing the consensus expected 770,000 pace. Starts are up 34.8% versus a year ago.

New building permits increased 11.6% in September to an 894,000 annual rate, easily beating the consensus expected pace of 810,000. Compared to a year ago, permits for single-unit homes are up 27.3% while permits for multi-family units are up 85.6% (no, that’s not a typo!).

New claims for unemployment insurance increased 46,000 last week to 388,000. The week before, claims

had dropped to 342,000.

**Bonds**

Friday Close Prior Week Comment

**10-yr UST yield** 1.766% 1.661%. Yields moved up on Jobs report

**30-yr UST** 2.936% 2.833%

**ML High Yield 100** 5.44% 5.63%

**30-yr Fixed** **Mtg** 3.67% 3.61%. Mortgage rates hold steady

**Commodities & Currencies**

Friday Close Prior Week Comment

**Gold/oz** $1722.8 $1758.0

**Crude Oil** $90.05 $91.86

**NYMEX Nat Gas** $3.617 $3.611

**$ per Euro** 1.3023

**Yen per $** 79.32

**Reuters CRB** 306.05 306.54

**Stocks**

Global markets rallied last week while the US markets were mixed after Friday's plunge in the US. Large cap stocks rose slightly but the Nasdaq fell 1.26% due to looses in Google and Apple. Mid caps rose nicely with the S&P Midcap up 1.2%. Small caps were mixed as the Russell 2000 fell .25%.

European stocks rose Euro Stoxx 600 rising 1.7% for the week. There was strength across the board with France and Spain up 3.4% and Italy up 2.26%.

Asia/Pac stocks rose 2.15% with Japan jumping 5.49% leading the way.

**Weekly Index Performance:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Dow Jones Industrials** | 13,343.51 | 14.66 | .11% |
| **S&P 500** | 1433.19 | 4.60 | .32% |
| **NASDAQ Comp** | 3005.62 | -38.49 | -1.26% |
| **S&P Mid Cap** | 987.40 | 11.79 | 1.21% |
| **S&P Small Cap** | 458.80 | .54 | .12% |
| **Russell 2000** | 821.00 | -2.09 | -.25% |
| **Stoxx Euro 600** | 274.08 |  | 1.73% |
| **Dow Asia/Pacific** | 127.61 |  | 2.15% |

|  |  |
| --- | --- |
| **Strong Sectors** | Materials, Utilities, Energy |
| **Weak Sectors** | Technology, Telecom, Consumer |
| **NYSE Advance/Decline** | 1864 / 1288 |
| **NYSE New High/Low** | 468 / 70 |
| **AAII Bulls/Bears** | **28.66% / 44.55% Big Change to Bearishness - Could be + for markets** |

Have a great week!

Bob

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**From the Desk of Bob Centrella, CFA: October 15, 2012**

***"So Just What is the Fiscal Cliff?"***

**Tired of trying to figure out this market? Take advantage of our Free Portfolio Review Offer. Call us at 908-344-9790**

Dear Friends:

Sorry I am quite late with my "morning" update but I was travelling from PA today so I was not able to produce my usual newsletter. I've attached the weekly data sheet which does contain a summary of key financial data from last week. Since I am late and short on time, I will dispense with my usual Monday morning banter and get right to today's belated topic - The dreaded Fiscal Cliff.

With all this talk of the "Fiscal Cliff" and the ramifications, I thought I'd send out a compilation of a few different articles I've read that gives a brief but concise description of exactly what happens on January 1st, 2013 when the tax breaks expire and the spending cuts go into effect.

As I have mentioned before in prior newsletters, this is an extremely important issue and I can't believe it wasn't addressed in the first presidential debate. Hopefully, we will hear a lot about it tomorrow night. Over the next week or so I will send a few more articles that give greater detail and try to explain how the economy and each of us might be affected. I think the info below is a good first step of outlining the looming problem.

Have a Great week!

**\_\_\_\_**

**FISCAL CLIFF DEFINED**

"Fiscal cliff" is the popular shorthand term used to describe the conundrum that the U.S. government will face at the end of 2012, when the terms of the Budget Control Act of 2011 are scheduled to go into effect. It consists of the simultaneous expiration of numerous tax breaks coupled with mandated federal spending cuts.

If we "fall off the Fiscal Cliff" - that is if no action is taken on these expiring tax breaks - taxes will increase by an average of about $3,500 per year per household. That's equivalent to the average family taking on a new bill of $300 per month just for tax increases. According to a study by the Tax Policy Center, the Fiscal Cliff consists of six components that expire December 31, 2012:

First are the Bush tax cuts from 2001 and 2003 that were extended in 2010.

Second we have the temporary tax cuts that were part of the ARRA, the American Recovery and Reinvestment Act of 2009.

Third, Congress has not acted on several temporary tax breaks that are usually extended.   
  
Fourth, the payroll tax cut is set to expire resulting in a 2% tax increase for workers.

Fifth, the new taxes in the ACA, the Affordable Care Act, will begin in 2013.   
  
Lastly, the AMT patch expired in 2011, so millions of taxpayers may be subject to the AMT or alternative minimum tax.

At the same time, the spending cuts agreed upon as part of the debt ceiling deal of 2011 will begin to go into effect. According to *Barron's*, over 1,000 government programs - including the defense budget and Medicare are in line for "deep, automatic cuts."

In dealing with the fiscal cliff, U.S. lawmakers have a choice among three options, none of which are particularly attractive:

* They can let the current policy scheduled for the beginning of 2013 - which features a number of tax increases and spending cuts that are expected to weigh heavily on growth and possibly drive the economy back into a recession - go into effect. The plus side: the deficit, as a percentage of GDP, would be cut in half.
* They can cancel some or all of the scheduled tax increases and spending cuts, which would add to the deficit and increase the odds that the United States could face a crisis similar to that which is occurring in Europe. The flip side of this, of course, is that the United States' debt will continue to grow.
* They could take a middle course, opting for an approach that would address the budget issues to a limited extent, but that would have a more modest impact on growth.

**Can a Compromise be Reached?**

The oncoming fiscal cliff is a concern for investors since the highly partisan nature of the current political environment could make a compromise difficult to reach. This problem isn't new, after all: lawmakers have had three years to address this issue, but Congress - mired in political gridlock - has largely put off the search for a solution rather than seeking to solve the problem directly. Republicans want to cut spending and avoid raising taxes, while Democrats are looking for a combination of spending cuts and tax increases. Although both parties want to avoid the fiscal cliff, compromise is seen as being difficult to achieve - particularly in an election year. The most likely result, in any event, is that the problem will linger at least until after the election, and there's a strong possibility that Congress won't act until the eleventh hour. Another potential obstacle is that the next Congress won't be sworn in until January 3.

The most likely result is another set of stop-gap measures that would delay a more permanent policy change until 2013 or later. The election will almost certainly have an impact on the direction of future policy, particularly if one party earns a decisive victory. Nevertheless, the non-partisan Congressional Budget Office (CBO) estimates that if Congress takes the middle ground - extending the Bush-era tax cuts but cancelling the automatic spending cuts - the result, in the short term, would be modest growth but no major economic hit.

**\*\*Possible Effects of the Fiscal Cliff**

If the current laws slated for 2013 go into effect, the impact on the economy could be dramatic. While the combination of higher taxes and spending cuts would reduce the deficit by an estimated $560 billion, the CBO estimates that the policies set to go into effect would cut gross domestic product (GDP) by *four* percentage points in 2013, sending the economy into a recession (i.e., negative growth). At the same time, it predicts unemployment would rise by almost a full percentage point, with a loss of about two million jobs. A Wall St. Journal article from May 16, 2012 estimates the following impact in dollar terms: "In all, according to an analysis by J.P. Morgan economist Michael Feroli, $280 billion would be pulled out of the economy by the sunsetting of the Bush tax cuts; $125 million from the expiration of the Obama payroll-tax holiday; $40 million from the expiration of emergency unemployment benefits; and $98 billion from Budget Control Act spending cuts. In all, the tax increases and spending cuts make up about 3.5% of GDP, with the Bush tax cuts making up about half of that, according to the J.P. Morgan report." Amid an already-fragile recovery and elevated unemployment, the economy is not in a position to avoid this type of shock.

The cost of indecision is likely to have an effect on the economy before 2013 even begins. The CBO anticipates that a lack of resolution will cause households and businesses to begin changing their spending in anticipation of the changes, possible reducing GDP by a full half-percent in the second half of 2012.

Some of the most immediate effects on investors will be affected in the following areas - the long term capital gains rate will increase, the dividend tax rate will increase, Muni bond investors may be subject to the AMT and the estate tax will increase with substantially lower limitations. The long term capital gains rate will increase from 15 percent to a maximum of 25 percent for high income investors. The dividend tax rate will go from 15 percent to a maximum of 39.6 percent.   
  
Municipal bond investors who are not subject to the AMT could become eligible and see a decline in their after tax income. If you have a sizable estate, 2012 could be one of the best years to do some gifting as the estate tax rates will increase and the exemptions will be lowered.

Having said all this, it's important to keep in mind that while the term "cliff" indicates an immediate disaster at the beginning of 2013, the impact of the changes - while destructive over a full year - will be gradual at first. What's more, Congress can act to change laws retroactively after the deadline. As a result, the fiscal cliff won't necessarily be an impediment to growth even if Congress doesn't address the issue until after 2013 has already begun.

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### From the Desk of Bob Centrella, CFA: October 8, 2012

### "Romney looks good - Employment Picks up"

### Tired of trying to figure out this market? Take advantage of our Free Portfolio Review Offer. Call us at 908-344-9790

### Dear Friends:

### Last week was a good one for Mitt Romney as he handily bested a subdued Obama in the first Presidential debate. The liberal-biased media couldn't even spin this one to the left as clearly Romney was on his game and may have given his chances a boost. He came across as very credible and extremely knowledgeable, a face he hadn't been able to show to the country previously. Meanwhile. Barack Obama looked tired unprepared, and not very feisty. Both candidates played footloose with the facts as usual and they throw around the "billions of dollars" term like it is nothing. Personally, I was happy to see that plenty of domestic issues were put out front to debate though I'm disappointed that the "Fiscal Cliff" issue was barely even mentioned. The market rallied after the debate with a mini "Romney Rally", perhaps a sign of what would happen if Romney were to pull off an upset that is not baked into the market expectations. Then the Obama campaign got good news on Friday when the jobs report was better than expected with the unemployment report falling to 7.8%, the lowest level since Obama took office.

### This week is the official start of 3rd quarter earnings with Alcoa reporting on Tuesday. Earnings numbers for the S&P 500 have come down and now analysts expect earnings to be down 4-5% for the quarter. Last quarter 65% of companies beat lowered expectations. The question is, have expectations been lowered enough that companies can generate positive surprises to lift the market higher? All eyes will be on forward guidance and any talk of 2013. However, visibility is so limited and there are so many uncertainties that 2013 talk will come with a lot of caveats I'm sure.

### It's hard to get very bullish or bearish here and I find the AAII Investor Poll very interesting in that it is almost perfectly neutral with Bullish/Bearish/Neutral all at about 33% each. The positive remains that the central bankers are accommodative and investors still shouldn't "Fight the Fed". October is the month of corrections, including the crash of '87 and several mini pullbacks. I wouldn't be surprised to see a pullback but anything more than a 5% pullback would have to be accompanied by some really unexpected news in my opinion. With the Fed providing a backstop, there still is a lot of money from investors that missed the rally looking to get into the market.

### See you next week.

### \*\*\*The Weekly Data Sheet is Attached\*\*\*

**\*\*\**We are also the IRA Rollover Specialists. 908-344-9790***

**Economy**

The economic news last week was pretty much positive with the unemployment report stirring up the conspiracy theorists hornets nest.

On Friday, it was reported that the unemployment rate fell to 7.8% from 8.1% prompting some to suggest that the numbers were fudged to help the Obama administration following the debate loss. Non-farm payrolls increased 114,000 in September, almost exactly the 115,000 the consensus expected. Revisions to July/August added 86,000, bringing the net gain to 200,000. Let's pick apart the numbers a bit. Civilian employment, an alternative measure of jobs that includes small-business start-ups, increased 873,000, the most in almost ten years. As a result, the unemployment rate fell to 7.8% despite a 418,000 increase in the labor force. Private sector payrolls were up 104,000 in September versus a consensus expected 130,000. In other words, the sector that beat the consensus in September was the government. Also, the huge rise in civilian employment was goosed by part-timers, with a 322,000 overall gain and a 582,000 increase for those working part-time for economic reasons.

The ISM services index came in at 55.1, higher than the consensus expected in September, signaling a combination of some acceleration in that sector and an abatement of negative sentiment regarding Europe. This is the best reading on the index since March.

After three straight months below 50 - signaling contraction - the ISM manufacturing index came in above 50, easily beating consensus expectations for September. According to the Institute for Supply Management, a level of 51.5 is consistent with real GDP growth of 3%. For the third quarter as a whole, the ISM index averaged 50.3, which is consistent with a growth rate of 2.6%.

**Bonds**

Friday Close Prior Week Comment

**10-yr UST yield** 1.736% 1.640%. Yields moved up on Jobs report

**30-yr UST** 2.967% 2.839%

**ML High Yield 100** 5.63% 5.75%

**30-yr Fixed** **Mtg** 3.58% 3.58%. Mortgage rates hold steady

**Commodities & Currencies**

Friday Close Prior Week Comment

**Gold/oz** $1778.6 $1771.1 Reflation hedge. i expect Gold to remain elevated.

**Crude Oil** $89.88 $92.19 Demand concerns push price lower and less MidEast tensions for now.

**NYMEX Nat Gas** $3.396 $3.320

**$ per Euro** 1.3036 1.2859

**Yen per $** 78.67 77.93

**Reuters CRB** 307.62 309.30

**Stocks**

Global markets rallied last week fueled mostly by the jobs report. The Dow closed up 1.3% to 13,610, a new 52-week high and only 4% below the all-time high of 14,164. The S&P 500 was up 1.4% to 1460.93 and is up over 16% YTD. The NASDAQ added .65% to 3136 but Apple had a tough week, losing 2%.

European stocks rose Euro Stoxx 600 rising 2.1% for the week. There was strength across the board with Italy up 5.17% and Spain up 3.19% both reversing last week's losses.

Asia/Pac stocks rose only .1% with Australia up 2.45% and Hong Kong up .83%

**Weekly Index Performance:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Dow Jones Industrials** | 13,610.15 | 173.02 | 1.29% |
| **S&P 500** | 1460.93 | 20.26 | 1.41% |
| **NASDAQ Comp** | 3136.19 | 19.96 | .64% |
| **S&P Mid Cap** | 996.36 | 7.34 | .74% |
| **S&P Small Cap** | 470.26 | 2.26 | .48% |
| **Russell 2000** | 842.86 | 5.41 | .65% |
| **Stoxx Euro 600** | 274.11 |  | 2.10% |
| **Dow Asia/Pacific** | 126.80 |  | .10% |

|  |  |
| --- | --- |
| **Strong Sectors** | Financial, HC, Consumer |
| **Weak Sectors** | Energy, Technology, Materials |
| **NYSE Advance/Decline** | 2167 / 1000 |
| **NYSE New High/Low** | 549 / 51 |
| **AAII Bulls/Bears** | 33.86% / 33.23% Investors are neutral |

Have a great week!

Bob

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### From the Desk of Bob Centrella, CFA: October 1, 2012

### "Europe makes a big comeback - but it's not what you think"

### Tired of trying to figure out this market? Take advantage of our Free Portfolio Review Offer. Call us at 908-344-9790

### Dear Friends:

### Shocking, remarkable, devastating, hard to believe! No, I'm not talking about the reaction to the anti-austerity protests in Spain and Greece. I'm talking about the collapse of the US Ryder Cup team this weekend against the Europeans! Europe proved that it could comeback against all odds, perhaps foreshadowing its economic situation?? Well, nice to think that way but certainly not over a weekend. For golf fans here and across the pond, it was a weekend of great golf and turning emotions. The US held a commanding 10-6 lead heading into the Sunday matches only to see the gutsy Euro team win match after match to overtake the US. My congrats to the Euro squad for their remarkable turnaround on Sunday to beat down us Americans in the biennial event.

### The 3rd quarter came to a close on a slight down note but overall it was certainly a strong quarter for the equity market much to the surprise of many investors who missed a good chunk of the rally. As I've talked about, the 3rd quarter has a history of being a weak one with the "Go away in May" strategy often talked about and put into play. Not this quarter, even though economic news around the world weakened. With all the uncertainty and negative news out there, easy money prevailed as monetary easing by the ECB, the Fed and Japan along with other measures implemented by China kept the market afloat and helped drive equity prices higher. During the quarter the S&P 500 rose 5.8% and is now up 14.6% for the year. The Dow rose 4.3% and is up 10% for the year while the Nasdaq due to strength of Apple jumped 6.17% in the quarter and is up 19.6% YTD. In Europe, the Euro Stoxx 600 rose 6.9% in the quarter and is up 9.8% YTD.

### As we enter October, the market continues to be addicted to newsflow. Therefore, it will be interesting to see how the market reacts to upcoming earnings announcements that are currently expected to be weak. For the quarter, analysts are expecting earnings to fall 2.6% which would be the first profit decline in 3 years. With pessimism being the expectation, there does exist the potential for upside surprise. Better than expected corporate earnings could move the US stock market ahead although gains may be tempered by the looming election and fiscal cliff.

### One last note, a conservative friend of mine has rightly pointed out to me that a Romney Rally is not in this market. If Romney wins the election then this market could move sharply higher as the markets seem to be pricing in an Obama win. So even another reason to root for Mitch! (OK, no replies back please from any of the Obama fans out there:)

### See you next week.

### \*\*\*The Weekly Data Sheet is Attached\*\*\*

**\*\*\**We are also the IRA Rollover Specialists. 908-344-9790***

**Economy**

In economic news last week:

Real 2nd Quarter GDP was lowered to 1.3% "Growth" from 1.7% a clear slowdown from prior quarters.

New claims for jobless benefits dropped 26,000 last week to 359,000. Continuing claims for regular state benefits declined 4,000 to 3.27 million

Personal income increased 0.1% in August, coming in slightly below the consensus expected gain of 0.2%. Personal consumption rose 0.5%, exactly as the consensus expected. In the past year, personal income is up 3.5%, while spending is up 3.6%.

The Chicago PMI, which measures manufacturing activity in that region, fell to 49.7 in September from 53.0 in August, the lowest level since September 2009.

New orders for durable goods plummeted 13.2% in August (-13.9% including revisions to July), coming in well below the consensus expected decline of 5.0%. Orders excluding transportation fell 1.6% (-2.2% including revisions to July), falling short of the consensus expected gain of 0.2%. Overall new orders are down 6.7% from a year ago, while orders excluding transportation are down 1.1%.

New single-family home sales declined 0.3% in August, to a 373,000 annual rate, coming in slightly below the consensus expected pace of 380,000. Sales are up 27.7% from a year ago.

In Europe, anti-austerity protests turned violent in Spain and Greece. Spain unveiled measures to increase taxes and cut spending for 2013 while saying its banks will need $69 billion in new capital. Greece's coalition reached a deal on a multi-billion euro austerity plan

**Bonds**

Friday Close Prior Week Comment

**10-yr UST yield** 1.640% 1.751%.

**30-yr UST** 2.839% 2.945%

**ML High Yield 100** 5.75% 5.46% HY Yields been backing up

**30-yr Fixed** **Mtg** 3.58% 3.65%. Below 3.6%. New refi wave possible

**Commodities & Currencies**

Friday Close Prior Week Comment

**Gold/oz** $1771.1 $1775.8

**Crude Oil** $92.19 $92.89

**NYMEX Nat Gas** $3.320 $2.885

**$ per Euro** 1.2859 1.298

**Yen per $** 77.93 78.16

**Reuters CRB** 309.30 308.98

**Stocks**

Global markets finished the week on a down note but it was still a much better than expected month. The Dow closed down 1% for the week but added 3% last month. The S&P 500 was down 1.3% for the week but finished the month 2.4% to 1440.7. The NASDAQ dropped 2.0% in the week but ended the month 1.65 higher.

European stocks fell in the week with the Euro Stoxx 600 falling 2.65%. Italy -5.6%, Spain -6.34% and France -4.98% led the decline.

Asia/Pac stocks dropped .64% in the week but are up 7.6% for the year%. China rose 2.93% while Japan fell 2.63%.

**Weekly Index Performance:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Dow Jones Industrials** | 13,437 | -142.34 | -1.05% |
| **S&P 500** | 1440.67 | -19.48 | -1.33% |
| **NASDAQ Comp** | 3116.23 | -63.73 | -2.0% |
| **S&P Mid Cap** | 989.02 | -17.02 | -1.69% |
| **S&P Small Cap** | 468 | -10.10 | -2.11% |
| **Russell 2000** | 837.45 | -18.06 | -2.11% |
| **Euro Stoxx 600** | 268.48 |  | -2.65% |
| **Dow Asia/Pacific** | 126.67 |  | -.64% |

|  |  |
| --- | --- |
| **Strong Sectors** | Utilities, HC, Consumer |
| **Weak Sectors** | Energy, Technology, Materials |
| **NYSE Advance/Decline** | 1080 / 2083 |
| **NYSE New High/Low** | 426 / 38 |
| **AAII Bulls/Bears** | 36.1% / 36.46% |

Have a great week!

Bob

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### From the Desk of Bob Centrella, CFA: September 24, 2012

### "Mostly Quiet This Past Week"

### Tired of trying to figure out this market? Take advantage of our Free Portfolio Review Offer. Call us at 908-344-9790

### Dear Friends:

### I know that many of you are golfers and as you know I love the game myself (though it also borders on hate at times:)... I think I have a good golf analogy to summarize where we are with today's economy. In the first week after the Fed announced the beginning of QE3 or what is now being dubbed "QEternity" by some, the markets paused and took a breather for a change. There really wasn't much news to drive the market so a healthy pause is a good thing to digest all the recent gains. In what has clearly become an event-driven market, investors now seem to be waiting for the next piece of news to help it move higher or for some signs of actual improvement. The first positive sign could be that Housing news has turned the corner. (See the Economy section below). However, more validation is needed. So, for those of you that play golf, it is like validating a "skin". In playing "Skin Validation Golf", if you win a hole with a "par, birdie or better" you have to validate it on the next hole with at least a par to keep your skin. Similarly, the economy needs more than 1 piece of news to validate that things are improving and that QE3 is working. And let's face it, QE1 and QE2 didn't necessarily set the job market on fire or get the economy rolling. So until the housing "skin" is validated by a few more pars, we will put that skin back in the pot and wait for some more positive signs.

### There are basically 2 opposing views on the current state of the market. One is that the market has gotten ahead of itself and the fundamentals don't support the market going higher until some real news other than monetary easing drives us higher. The economy is still stuck in neutral and corporate profit growth is slowing and the comps get more difficult. So these investors are still non-believers that mostly missed the rally, sit on a lot of cash and will wait it out for another opportunity to jump in.

### The second view is that the market is being fueled by central bankers worldwide and you should stay the course. Any pause or drop will be shallow, so you should use those opportunities to buy the dips. First, investors are now afraid of missing something good rather than like the past year when all the announcements were bad news. Although many of the expected announcements have already happened, it is the unexpected that could help (or hurt) the market. Second, Hedge Funds and other managers are underperforming so they may be forced to buy the dips to try to make up lost ground. Third, what's the alternative? The monetary easing by the Fed and other central bankers is pushing investors to "risk assets" to garner the potential for return. Fourth, we are in "window-dressing" period for managers as it is quarter-end and "year-end" for many mutual funds, so there may be some buying into the end of the quarter. Finally, since the common view still is not to believe this market, the contrarian view is to do the opposite and stay in it.

### Personally I fall somewhere in the middle. I think that you should take some profits off the top and let dividends and interest accumulate into cash for a little bit while we get a read on the economy, 3rd quarter profits, the election, Europe, the fiscal cliff, China, etc.. However, I think we need to stay invested with the core of the portfolio because the Central Bank actions will provide a backstop and the stage is being set for the economy to improve assuming we don't fall off said "fiscal cliff".

### And remember last week I ended my newsletter with "Don't Fight the Fed - Or the ECB, or the BOE or The Bank of China"? Well add the Bank of Japan to that list. There is free money flying all over the place! Last week the BOJ added its version to the worldwide easing bandwagon by announcing that it would ramp up its bond buying program by about $125 billion by the end of 2013. So, now we just await China to enter the free money fray in a bigger way than its announced infrastructure build.

### See you next week. (Btw, I hope you enjoyed my 2-part wine series. I will post them to my website along with some more pictures.)

**\*\*\**We are also the IRA Rollover Specialists. 908-344-9790***

**Economy**

In economic news last week:

Existing home sales rose 7.8% in August to an annual rate of 4.82 million units, coming in way above the consensus expected 4.56 million. Sales are up 9.3% versus a year ago. The median price of an existing home fell slightly to $187,400 in August (not seasonally adjusted), but is up 9.5% versus a year ago. Average prices are up 4.3% versus last year. The months' supply of existing homes (how long it would take to sell the entire inventory at the current sales rate) fell to 6.1 in August from 6.4 in July. The decline in the months' supply was all due to a faster selling pace. Inventories rose in August.

Housing starts rose 2.3% in August to 750,000 units at an annual rate, coming in below the 767,000 rate the consensus expected. Starts are up 29.1% versus a year ago

**Bonds**

Friday Close Prior Week Comment

**10-yr UST yield** 1.751 1.869%.

**30-yr UST** 2.945% 3.089%

**ML High Yield 100** 5.46% 5.26%

**30-yr Fixed** **Mtg** 3.65% 3.70%.

**Commodities & Currencies**

Friday Close Prior Week Comment

**Gold/oz** $1775.5 $1769.8

**Crude Oil** $92.89 $99.00

**NYMEX Nat Gas** $2.885 $2.943

**$ per Euro** 1.298 $1.313

**Yen per $** 78.16 $78.39

**Reuters CRB** 308.98 320.93

**Stocks**

Global markets finished a quiet trading week almost flat. The Dow closed down .1%, the S&P 500 down .38% and the NASDAQ dropped .13%. Riskier assets such as Small and Mid Cap stocks dropped further with the S&P Midcap falling 2% and the Russell 2000 falling 1.06%.

European stocks were mixed with the Euro Stoxx 600 falling -.06%. Italy -3.81% while Spain +.93% recorded a gain on news that a bond rescue could be forthcoming this week.

Asia/Pac stocks rose slightly by .05%. China fell 4.57% while India rose 1.56%.

**Weekly Index Performance:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Dow Jones Industrials** | 13,579 | -13.9 | -.10% |
| **S&P 500** | 1460.15 | -5.62 | -.38% |
| **NASDAQ Comp** | 3179.96 | -3.99 | -.13% |
| **S&P Mid Cap** | 1006.24 | -20.81 | -2.03% |
| **S&P Small Cap** | 478.10 | -7.56 | -1.56% |
| **Russell 2000** | 855.51 | -9.19 | -1.06% |
| **Euro Stoxx 600** | 275.78 |  | -.06% |
| **Dow Asia/Pacific** | 127.42 |  | .05% |
|  |  |  |  |

|  |  |
| --- | --- |
| **Strong Sectors** | Telecom, HC, Consumer |
| **Weak Sectors** | Energy, Financials, Materials |
| **NYSE Advance/Decline** | 1371 / 1768 |
| **NYSE New High/Low** | 505 / 32 |
| **AAII Bulls/Bears** | 37.5% / 33.8% |

Have a great week!

Bob

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### From the Desk of Bob Centrella, CFA: September 17, 2012

### "No You Can't Always get What You Want - Or Maybe You Could"

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### Dear Friends,

### I'm sure you all know the Rolling Stones song "You Can't Always Get What You Want". Well, contrary to what Mr. Jagger thinks, it seems like in the last two weeks that investors got almost exactly what they wanted -- and maybe a little more. First, investors got the ECB pledge from Mario Draghi about their unlimited bond-buying program 2 weeks ago. Reaction - stock rally. On Wednesday of last week the German High Court ruled in favor of allowing the nation to participate in the European bailout fund. Reaction - stocks moved higher. On Thursday, the Fed and Ben Bernanke took center stage and even with high expectations squarely on his shoulders the Fed managed to surprise the market with their announcement that QE3 would begin, would be open-ended and would remain in place for a considerable time after the economic recovery strengthens. Reaction - significant stock rally. So we now have the Fed, ECB and even China pumping money into the financial markets.

### Just to give the details, the Fed announced that it would purchase $40 billion of agency MBS per month and extend Operation Twist to the end of the year so in total it will purchase about $85 billion in long-dated securities. Also, it expanded its pledge to keep rates low until mid 2015. All this with a goal of pumping up the housing market which it hopes will lead to higher manufacturing and employment. The exclamation point on the announcement was that this would be open-ended and that it would continue for some time after the economy recovers. So, by making the announcement, the Fed removed any doubt or debate as to the question of what the Fed will do next.

### The easy money continues to push investors into risk assets. On Thursday and Friday we saw big moves in commodity stocks, industrials and financials. Whether this continues we shall see but investors are looking for groups that have not participated in the rally so far, hoping to make-up for missing the rally this year. History has shown that in the month following a QE announcement, the S&P tends to move higher with financial and industrial stocks leading the charge. However, before the market can go meaningfully higher we have to navigate the upcoming Q3 earnings season, the US election, the fiscal cliff, China's slowdown and of course Europe's recession and debt problems. Markets right now are full of exuberance created by easy monetary positions from world central banks. So, the plan is now on the table and execution and results are ahead of us.

### In summary, this market has lived up to one simple axiom - DON'T FIGHT THE FED. (Or the ECB, or the BOE, or the Bank of China...)

### See you next week. (Btw, I will send out the promised Part 2 of my Wine notes from Italy later today or tomorrow.)

**\*\*\**We are also the IRA Rollover Specialists. 908-344-9790***

**Economy**

In other economic news last week:

While the markets were celebrating the latest round of easing news, Moody's warned that is could downgrade the US Government credit rating in 2013 if large-scale measures aren't taken to reduce the nation's rising debt. This should be a big deal but remember what happened when S&P downgraded US debt -- basically nothing. Rates on US Treasuries hit an all time low a few months ago and have only moved up slightly due to the rush by investors into risk assets.

Retail sales increased 0.9% in July, almost exactly the 0.8% gain the consensus expected. Sales were up 0.7% including revisions for June/July. Retail sales are up 4.7% versus a year ago.

Industrial production fell 1.2% in August coming in way below the consensus expected no change. Production is still up 2.8% in the past year. Overall capacity utilization moved down to 78.2% in August from 79.2% in July. Manufacturing capacity use declined to 77.0% in August from 77.7% in July.

The Consumer Price Index (CPI) was up 0.6% in August, matching consensus expectations. The CPI is up 1.7% versus a year ago. The rise in the CPI in August was due to a 5.6% gain in energy. There were also widespread gains in most other major categories. The "core" CPI, which excludes food and energy, was up 0.1%, versus a consensus expected gain of 0.2%, and is up 1.9% versus last year.

The Producer Price Index (PPI) increased 1.7% in August, coming in well above the consensus expected gain of 1.2%. Producer prices are up 2.0% versus a year ago. Excluding food and energy prices, core PPI increased .2%

New claims for unemployment insurance increased 15,000 last week to 382,000, the most in 2 months. Continuing claims fell 49,000 to 3.28 million.

**Bonds**

Friday Close Prior Week Comment

**10-yr UST yield** 1.869 1.66%. Big change on Fed move

**30-yr UST** 3.089% 2.81% Yield back above 3%

**ML High Yield 100** 5.26% 5.72% Investors still chasing yield, spreads are narrowing

**30-yr Fixed** **Mtg** 3.70% 3.70%.

**Commodities & Currencies**

Friday Close Prior Week Comment

**Gold/oz** $1769.8 $1737 Big rally again as easing stokes inflation fears

**Crude Oil** $99.00 $96.42

**NYMEX Nat Gas** $2.943 $2.682

**$ per Euro** 1.313 $1.2816 Euro back above 1.3

**Yen per $** 78.39 $78.26

**Reuters CRB** 320.93 311.67

**Stocks**

Global markets rallied for a second week on the Federal Reserve move this time with the S&P 500 closing the week at 1466. up 1.94%. The Dow climbed 2.15% to 13593, and the NASDAQ closed at 3183, up 1.52%. The S&P and the Dow climbed to highs not seen since December 2007 while the Russell 2000 set a new intra-day all time high before closing a point away from the high.

European stocks jumped with the Euro Stoxx 600 climbing 1.47% to 276. Italy +3.19% and Spain +3.45% recorded the biggest gains.

Asia/Pac stocks rose 3.6% to 127.4 with strength across the board. Hong Kong, India, S. Korea and Taiwan all rose over 4% but China dropped .18%.

**Weekly Index Performance:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Dow Jones Industrials** | 13,593 | 286.73 | 2.15% |
| **S&P 500** | 1465.77 | 27.85 | 1.94% |
| **NASDAQ Comp** | 3183.95 | 47.53 | 1.52% |
| **S&P Mid Cap** | 1026.85 | 22.25 | 2.21% |
| **S&P Small Cap** | 485.66 | 11.69 | 2.47% |
| **Russell 2000** | 864.7 | 22.43 | 2.66% |
| **Euro Stoxx 600** | 276 |  | 1.47% |
| **Dow Asia/Pacific** | 127.42 |  | 3.6% |

|  |  |
| --- | --- |
| **Strong Sectors** | Basic Material, Oil & Gas, Financials |
| **Weak Sectors** | Utils, Consumer, Healthcare |
| **NYSE Advance/Decline** | 2317 / 837 |
| **NYSE New High/Low** | 722 / 36 |
| **AAII Bulls/Bears** | 36.5% / 33% Here come the Bulls |

Have a great week!

Bob

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### From the Desk of Bob Centrella, CFA: September 10, 2012

### "The Good Ship QE3 is Preparing to Sail" \*\*\*Data Sheet Attached

### Tired of trying to figure this market? Take advantage of our Free Portfolio Review Offer

### Dear Friends,

### Attention, attention - all hands on deck. The good ship QE3 is boarding and preparing to sail! The only question is when will she depart? This past week's economic reports added another layer of certainty that the Federal Reserve will take some action when the Open Market Committee meets on Sept. 13. Why the new layer of certainty? It is mostly due to the continuing string of weak economic numbers, specifically the Friday jobs report which showed only 96,000 new nonfarm jobs added last month. So, the market is expecting QE3 to be unleashed setting us up for potential disappointment if it is not announced. What is very likely is that the Fed at least announces an extension of the short-term rate policy into 2015. To me, the announcement of another round of easing (ie, QE3) is not a slam dunk given the election around the corner. We'll see around 2pm on Thursday.

### Overseas, the ECB basically did about exactly what the market was expecting, or maybe even a little more. ECB President "Super Mario" Draghi announced that policy makers agreed to an unlimited bond-buying program of bonds issued by euro-zone countries. It won't claim senior status putting it level with other investors. Also, in a nod to Germany, they agreed to "sterilize" the purchases. No, that doesn't mean putting the white gloves on to buy potentially hazardous Spanish, Greek and Italian bonds. It means that they will do so without increasing the balance sheet of the ECB by selling other assets to buy the bonds. Conversely, the US Fed has significantly expanded its Balance Sheet during its Quant Easing initiatives. In theory, this should put a temporary band-aid on Euro ills and buy time for a better solution. It could also help the European markets rally even further if a more formal plan is put in action in coming weeks. There are still some hurdles to overcome.

### In summary, the markets now appear to be in a position where they are being held together by the Bernanke and Draghi Puts. That is, each time things appear to worsen, either one or both Central Bank heads hold the option to unleash quantitative easing onto the markets, thereby coming to the rescue. As long as they hold that Put, the markets don't want to sell-off for fear of missing the rebound when Ben or Mario come to the rescue. A precarious position it is. But it has buttressed the markets nonetheless.

### FORZA SURVEY UPDATE

### For fun, I thought I'd take a look back at the Forza Financial Data Survey we did at the beginning of the year to see how our consensus forecast is looking and see if anybody is close individually to getting the bottle of wine and year-end. Here are the current levels and the closer of the average or median forecasts.

### Current Forecast

### S&P 500 1,438 1,350

### DJIA 13,306 13,380

### Euro 600 272 251.6

### Oil $96.42 $100.8

### Gold/oz $1,737.5 $1,500

### Euro/$ 1.282 1.27

### 10-yr UST 1.66% 2.10

### GDP% <2% 2.68%

### Individually, there are a few people that are close but with 3 months to go, a lot could happen. In general, it looks like the stock markets are a bit better, Gold is much higher, and the UST Yield is significantly lower due to the continued Fed easing. The economy is worse than we forecasted. On the political front, as a reminder, our forecast was very tight with a slight nod to Obama.

### Finally, let's not forget that tomorrow is 9/11, the 11th anniversary of the attacks on America. Please set aside some time to remember those that lost their lives and reflect on all that has transpired since then.

### See you next week. (Btw, I will send out Part 2 of my Wine notes from Italy later this week.)

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**Economy**

Friday's big news was that non-farm payrolls increased 96,000 in August (55,000 with downward revisions to June/July). The consensus expected a gain of 130,000. The unemployment rate fell to 8.1% from 8.3%. Good right? Not so fast. The drop in the rate was due to the labor force declining by 368,000. Basically, more people are just giving up looking for work. On economic group estimates that 7 MILLION people are now out of the labor pool. That's 2.9% of the population. The jobs report is likely seasonal so a better report may come next month. But, this looks pretty bad.

The ISM non-manufacturing index increased to 53.7 in August, beating the consensus expected 52.5. (Levels above 50 signal expansion; levels below 50 signal contraction.) The direction of the key sub-indexes was mixed in August but all were above 50. The supplier deliveries index gained to 51.5 from 49.5 and the employment index rose to 53.8 from 49.3. The business activity index declined to 55.6 in August from 57.2 and the new orders index fell to 53.7 from 54.3.

The ISM manufacturing index declined to 49.6 in August from 49.8 in July, coming in below the consensus expected 50.0. The new orders index declined to 47.1 from 48.0

Nonfarm productivity (output per hour) rose at a 2.2% annual rate in the second quarter, revised up from last month's estimate of 1.6%. Nonfarm productivity is up 1.2% versus last year.

China announced a $150+ Billion infrastructure spending package to help stimulate their stagnating economy.

**Bonds**

Friday Close Prior Week Comment

**10-yr UST yield** 1.66% 1.68%. Little change

**30-yr UST** 2.81% 2.72%

**ML High Yield 100** 5.72% 5.84% Investors still chasing yield, spreads are narrowing

**30-yr Fixed** **Mtg** 3.70% 3.71%.

**Commodities & Currencies**

Friday Close Prior Week Comment

**Gold/oz** $1737.5 $1670 Big rally as easing stokes inflation fears

**Crude Oil** $96.42 $96.47

**NYMEX Nat Gas** $2.682 $2.734

**$ per Euro** 1.2816 $1.2593 Euro strength on ECB Plan

**Yen per $** 78.26 $78.26

**Reuters CRB** 311.67 309.59

**Stocks**

Global markets rallied on the ECB move with the S&P 500 closing the week at 1437.9. up 2.23%, its highest level since 2008. The Dow climbed 1.65% to 13306.6, its highest since December 2007 and the NASDAQ closed at 3136, up 2.26%, a level not seen since 2000.

European stocks jumped with the Euro Stoxx 600 climbing 2.28% to 272.

Asia/Pac stocks rose 1.04% led by a 3.92% jump in China.

DJ Americas stocks rose 2.51%.

**Weekly Index Performance:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Dow Jones Industrials** | 13,306.6 | 215.8 | 1.65% |
| **S&P 500** | 1437.9 | 31.34 | 2.23% |
| **NASDAQ Comp** | 3136.4 | 69.46 | 2.26% |
| **S&P Mid Cap** | 1004.6 | 33.05 | 3.4% |
| **S&P Small Cap** | 473.97 | 16.06 | 3.51% |
| **Russell 2000** | 842.27 | 30.18 | 3.72% |
| **Euro Stoxx 600** | 272 | 6 | 2.28% |
| **Dow Asia/Pacific** | 122.98 | 1.27 | 1.04% |

|  |  |
| --- | --- |
| **Strong Sectors** | Basic Material, Oil & Gas, Financials |
| **Weak Sectors** | Utils, Consumer, Telecom |
| **NYSE Advance/Decline** | 2445 / 678 |
| **NYSE New High/Low** | 520 / 58 |
| **AAII Bulls/Bears** | 33% / 33% Huh, bulls = bears |

Have a great week!

Bob

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***From the Desk of Bob Centrella, CFA: September 4, 2012***

***" Goodbye Summer Vacation, Hello FED and ECB "***

**Tired of trying to figure this market? *Take advantage of our Free Portfolio Review Offer***

***Dear Friends,***

So August and the Summer vacation period are officially gone but on a cheery note the Fall is one of the prettiest times of the year with great weather beckoning us to stay outdoors and stoke up the BBQ, ride our bikes, hit the golf course or head to uncrowded beaches. Hopefully you all enjoyed the weekend although the weather was spotty the last few days here in NJ. Personally, I played some golf (though it didn't appear to be that at times), rode the motorcycle, rode the bike, hit the beach with the family for a day and grilled some steaks. So, we packed a lot in a few short days.

August was a decent month for the stock market and the month closed on a good note with a Friday rally after Chairman Bernanke left the door open to further monetary easing during a highly anticipated speech. August finished with a gain as the S&P 500 rose almost 2% and concluded a summer rally. Since 5/31, the S&P 500 has risen 7.3% to 1406 , though it is basically flat since May 1st. So for all those that practice the go away in May theory, it was a non-event this year. More interestingly, since 1971, this is only the 8th time in 42 years that the S&P rose all three months in the summer. In each of those other years except one, the market finished the year higher at December 31 albeit not in a straight line. However, the one year it didn't was the year of the 1987 crash! Also, even though September is the cruelest month for the stock market, during those other 8 years the market rose 6 times in September, falling only slightly the other two times. So, if history is any guide, there is some potential for this September to be less severe or up.

Having said all that, this September is one that will be full of important economic news as well as ECB and Fed meetings. Europe comes back into the spotlight this week as the ECB meets on Thursday to decide on rates and the guidelines for bond purchases. On 9/12, Germany's constitutional court meets to decide on the legality of the Eurozone rescue facilities. Here in the US, the Fed meets and reports to the markets on 9/13. So far, the ECB and the Fed have kept the markets stable through jawboning, by continuing to say the right things repeatedly. However, at some point the markets need substance over rhetoric and the coming weeks will give the central banks the opportunity to lay out their plans. The Eurozone is especially in need of a hard plan as the markets have given them a pass since late July when ECB head Mario Draghi uttered the now oft quoted phrase of "we will do whatever it takes to preserve the Euro". If we don't get some substance soon, Europe markets will take a hit and the US is sure to follow.

Following this email, I will send the first of my 2 wine notes from our recent Italy trip. Although it has been 2 weeks since our return, the memories are still fresh. though the tastes are fading...

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**Economy**

Personal income increased 0.3% in July, coming in exactly as the consensus expected. Personal consumption rose 0.4%, slightly below  
the consensus expected gain of 0.5%. In the past year, personal income is up 3.6%, while spending is up 3.3%. On the inflation front, both overall consumption prices and the core PCE, which excludes food and energy, were unchanged in July. Overall prices are up 1.3% in the past year while core prices are up 1.6%.

Real GDP was revised up to 1.7% "growth" from 1.5% for the second quarter.

The best news so far this week is from the Case-Shiller index, a measure of home prices in the 20 largest metro areas, which showed a 0.9% gain (seasonally-adjusted) in home prices in June.

**Bonds**

Friday Close Prior Week Comment

**10-yr UST yield** 1.586% 1.68%. Bernanke's comments lead to Bond rally.

**30-yr UST** 2.79% 2.72%

**ML High Yield 100** 5.87% 5.84% Investors chasing yield, spreads are narrowing

**30-yr Fixed** **Mtg** 3.70% 3.71%.

**Commodities & Currencies**

Friday Close Prior Week Comment

**Gold/oz** $1670 $1669.8

**Crude Oil** $96.47 $96.15

**NYMEX Nat Gas** $2.734 $2.702

**$ per Euro** 1.2593 $1.2512

**Yen per $** 78.26 $78.65

**Reuters CRB** 309.59 306.04

**Stocks**

US Stocks fell for the week with the Dow losing .5% to 13090.8. the S&P 500 falling .3% to 1406.58 and the NASDAQ falling 3 points to 3066.96. It would have been much worse for the second week in a row except for Friday's 90 point Dow rally after reaction to Fed Chair Bernanke's Jackson Hole meeting speech.

European stocks dropped slightly with the Euro Stoxx 600 falling 2 points to 266.

Asia/Pac stocks fell during the week with the index dropping 2% to 121.71.

**Weekly Index Performance:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Dow Jones Industrials** | 13,090.8 | -67.13 | -.51% |
| **S&P 500** | 1406.58 | -4.65 | -.32% |
| **NASDAQ Comp** | 3066.96 | -2.83 | -.09% |
| **S&P Mid Cap** | 971.55 | 1.39 | +.14% |
| **S&P Small Cap** | 457.91 | 1.98 | +.43% |
| **Russell 2000** | 812.09 | 2.90 | +.36% |
| **Euro Stoxx 600** | 266 | -2.0 | -.75% |
| **Dow Asia/Pacific** | 121.71 | -2.57 | -2.07% |

|  |  |
| --- | --- |
| **Strong Sectors** | Healthcare, Consumer Svcs, Financials |
| **Weak Sectors** | Utils, Oil&Gas, Industrials |
| **NYSE Advance/Decline** | 1693 / 1437 |
| **NYSE New High/Low** | 323 / 61 |
| **AAII Bulls/Bears** | 34.7% / 32.64% |

Have a great week!

**AUGUST 2012 NEWSLETTER ARCHIVE**

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***From the Desk of Bob Centrella, CFA: August 27, 2012***

***" More Chicken Soup for the Economy Please "***

**Tired of trying to figure this market? *Take advantage of our Free Portfolio Review Offer***

***Dear Friends,***

Well, I've now had a week to ease myself back into the real world post vacation. After almost 2 weeks in Italy, I had to slowly kick the habit of late dinners, lots of red wine, grappa and sadly, less gelato. Speaking of wine, I promise to get out some notes this week from our trip. I meant to do it last week but I got sidetracked. I don't know about you but I am having a hard time letting go of the summer. I've really enjoyed this summer and the stealth stock rally has helped too. We've also made several day-trips to the NJ shore to soak up the sun. I'm sure some of you have already sent off your kids to college or are preparing to do so this week. High School also will start soon as will intermediate and grade school. Even though I still get that pit in my stomach when school starts, I keep reminding myself -- you don't have school anymore!

In the financial markets, there is not much going on but a lot remains in the background. The stock market looked like it wanted to correct a bit last week and even though the markets finished the week lower, it could have been worse had it not been for news of a letter that Fed Chair Bernanke sent to Congress saying that the Fed still has some rabbits it can pull out of a hat to help the economy. In other words, more chicken soup for the economy. I say chicken soup because it seems that QE1 and QE2 were palliative treatments for the economy andQE3 is likely to be the same. There is no cure but perhaps if the Fed keeps feeding the economy chicken soup, it will keep feeling incrementally better. With Congress in lame-duck mode, there is no fiscal policy. As a matter of fact, I can't think of the last time our President and his crew put forth a proposal other than "stop giving tax breaks to the fat cats on Wall Street". As if this singular sound-bite will cure the economy's problems. Sorry, I digress. But it's no wonder that the market is overly fixated on monetary policy. That's all we got!

September has historically been the worst month for the stock market. That doesn't necessarily mean a huge selloff -- just that it has been down more than up in September. Will the market follow it or will it buck the trend like it did all summer? The "sell in May" trade did not work this year like it did the last two as the market rallied this summer. So, what happens in September with all the background noise we will have of the election, China's potential hard landing,QE3, Greece and the rest of Europe? With all of Europe on vacation the market seems to have a false sense of things are getting better. Once the politicians come back there is still a lot of work to do overseas and don't be surprised if Europe gets back into the headlines and holds the market hostage again for a while. As one British columnist put it "politicians like German Chancellor Angela Merkel have made it impossible for the market to run its normal course. Prices and outcomes are so rigged by presidents and central bankers that they no longer make any rational sense. And for that reason they become impossible to predict."

The current stock market rally is one of the more unfriendly or hated rallies I've seen in some time. From what I understand, many institutions and hedge-funds have underperformed as they have not participated fully. With all the uncertainties out there, many have either stayed on the sidelines or only dipped their toes and not jumped in. One thing is certain however. The market does need a stronger economy at some point to move markedly higher. And that has to be more than chicken soup to help it get there.

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**Economy**

New orders for Durable Goods increased 4.2% in July, easily beating consensus expected rise of 2.5%. Orders excluding transportation declined .4%.

New single-family home sales increased 3.6% in July, to a 372,000 annual rate, beating the consensus expected pace of 365,000. Sales are up 25.3% from a year ago. The months' supply of new homes (how long it would take to sell the homes in inventory) fell to 4.6 from 4.8 in June.

New claims for unemployment insurance increased 4,000 last week to 372,000. The four-week moving average is 368,000. Continuing claims also increased 4,000 to 3.32 million.

Existing home sales rose 2.3% in July to an annual rate of 4.47 million units, coming in slightly below the consensus expected 4.51 million. Sales are up 10.4% versus a year ago. The median price of an existing home fell slightly to $187,300 in July (not seasonally adjusted), but is up 9.4% versus a year ago. Average prices are up 7.1% versus last year.

**Bonds**

Friday Close Prior Week Comment

**10-yr UST yield** 1.68% 1.82%.

**30-yr UST** 2.80% 2.93%

**ML High Yield 100** 5.84% 5.93% Investors chasing yield, spreads are narrowing

**30-yr Fixed** **Mtg** 3.71% 3.86%.

**Commodities & Currencies**

Friday Close Prior Week Comment

**Gold/oz** $1669.8 $11616.3 Gold at a 4-month high.

**Crude Oil** $96.15 $95.98

**NYMEX Nat Gas** $2.702 $2.685

**$ per Euro** 1.2512

**Yen per $** 78.65

**Reuters CRB** 306.04 303.48

**Stocks**

US Stocks fell for the week with the Dow losing .88% to 13157. the S&P 500 falling .5% to 1411 and the NASDAQ falling .22% to 3069.8. It would have been much worse except for Friday's 100 point Dow rally after news was released that Fed Chairman Bernanke wrote a letter to Congress saying that there is still scope for the central bank to ease.

European stocks dropped with the Euro Stoxx 600 falling 1.77% to 268. Spain fell 3.3% and Germany dropped 1%.

Asia/Pac stocks fell during the week with the index dropping .22%. China dropped 1.08%, its 8th loss in 10 weeks and is at a 52-week low.

DJ Americas stocks fell with the index down .55%. Brazil -1.11%, Mexico -.83% and Canada -.06% all fell.

**Weekly Index Performance:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Dow Jones Industrials** | 13,158 | -117 | -.88% |
| **S&P 500** | 1411 | -7.03 | -.50% |
| **NASDAQ Comp** | 3069.8 | -6.8 | -.22% |
| **S&P Mid Cap** | 970.16 | -7.69 | -.79% |
| **S&P Small Cap** | 455.93 | -5.26 | -1.14% |
| **Russell 2000** | 809.19 | -10.7 | -1.31% |
| **Euro Stoxx 600** | 268 |  | -1.77% |
| **Dow Asia/Pacific** | 124.28 |  | -.22% |
|  |  |  |  |

|  |  |
| --- | --- |
| **Strong Sectors** | Healthcare, Consumer Svcs, Financials |
| **Weak Sectors** | Utils, Telecom, Industrials |
| **NYSE Advance/Decline** | 1147 / 2009 |
| **NYSE New High/Low** | 326 / 45 |
| **AAII Bulls/Bears** | 42% / 25.9% bulls are coming out |

Have a great week!

Bob

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***Bob Centrella, CFA***

***From the Desk of Bob Centrella, CFA: August 20, 2012***

### "Back from Italy - The Market has been on a Roll"

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### Dear Friends,

Buongiorno a tutti! Hello to all and I hope your summer has been great so far. It is that time now when the kids are heading to college and we are trying to squeeze in the last of summer vacations. We just returned last week from 10beautiful nights traveling through Italy doing our "wine research" and sampling the economy (and not vice versa:).As always, the Italian people were wonderful to us, the food and gelato amazing and the wine flowed continuously. August is a great time to go to Italy as many Italians are on vacation (Google Ferragosto) and it is a lively and festive time if you know where to go. It seemed to me that tourism is alive and well where we visited (Bellagio, Piedmont, Portofino, Tuscany, Rome) but we were told that merchants and lodging owners are seeing volume declines of 20-30% from just a few years ago. Americans are still traveling but now Europeans and Asians are cutting back. So I will give a plug to our friends at [www.ortaglia.it](http://www.ortaglia.it/) in the beautiful hill-town of Montepulciano. If you are looking for an authentic, beautiful Tuscan villa to stay at in the heart of Tuscany, please consider **RelaisOrtaglia** in Montepulciano. It is in a great location and the owners Terenzio and Mara will treat you like family.(Be sure to tell them the Roberto and Anna Maria referred you!).

Well it looks like I should go on vacation more often given the reaction of the equity markets the past 2 weeks. When we left for Italy, the market was trying to rally and it did so while we were away. The Dow is now up 6 straight weeks including moving from 13096 to 13275 in the past 2 weeks, only a hair away from its April high. The S&P 500 rose 1.9% in the past 2 weeks and at 1418 is only a point away from its April high.

I'm still sifting through all the data of the past few weeks but a simple observation is that there has been a lull in negative information.US Earnings are better than expected, news-flow from Europe has been either positive or quiet, and other financial news from around the world has been muted. All to lead to a summer rally. Unlike the past 2 years when the market plunged in August, this August is actually more of the norm. Historically, August has been the 2nd best month for the Dow behind December. On the flipside, September has been the worst month of the year for equities, so it might be a good time to take a few profits from this rally.

I will resume my normal weekly updates next Monday and will also send out a wine note this week. I'd like to share the "results" of our wine research trip as we attended some great tastings and sampled plenty of Italian wine and Grappa.

Have a great week.

Bob

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***FORZA INVESTMENT ADVISORY – JULY 2012 NEWSLETTERS***

***From the Desk of Bob Centrella, CFA: July 30, 2012***

***"ECB to the Rescue"***

**Tired of trying to figure this market? *Take advantage of our Free Portfolio Review Offer***

***Dear Friends,***

Sorry I am a little late this morning. The past week was one filled with news and events both in the marketplace and out of it. One big news item that started the week was the NCAA sanctions on Penn State. I have a lot to say about the whole affair but I will leave those comments for emails and conversations among friends and supporters. Needless to say it has been a sad affair all around and let's not forget the real victims here. On the positive side for the week, the Olympics kicked off in London with a bang. You know aside from the positive feelings that we get for our country, there is actually a negative Olympics effect in the economy because consumers are sitting in front of their TVs watching instead of being productive and spending. So, if you are stationed in front of the TV, order out for some food and buy something online. Help the economy!

**Central bankers**

Question: How do you calm fears in the financial markets and resolve to fix debt and growth problems without really doing anything?

Answer: You indirectly promise to print money.

ECB president, Mario Draghi took a page from the Fed's playbook and quelled fears in the markets and started a huge 2-day rally by coming out in support of the Euro by stating that he would do whatever it takes to save the Euro. He also added "Believe me, it will work". Most market pundits assume that this means printing money to resume large-scale purchases of Italian and Spanish bonds to lower their borrowing costs among other things. So, by basically doing nothing but printing money (hello inflation) central bankers once again come to the rescue for a while until reality sets back in and investors start dwelling on the negatives again. OK, call me cynical.

As we enter August it is worth noting that the month has become sort of a crisis month in years past. Remember last summer the market started its swoon when the US credit rating got downgraded. So, perhaps central bankers are trying to stave off the late summer struggles of the market by front-running the market with supportive comments now. The US fed's FOMC meeting is this Tuesday and Wednesday, while the ECB holds its meeting Thursday. We should listen closely to what comes out of those meetings. The market could continue to rally near-term as investors try to stay ahead of any potential good news from those meetings.

**Earnings Front**

Earnings reports for companies so far have been a mixed bag but there is one certainty that is being relayed to the market, Q3 and Q4 will be tough. Facebook's first report was a major disappointment. Even Apple faltered with a rare miss of estimates, causing a selloff in shares and hurting the market tone early in the week. With about 300 companies reporting so far, 2/3 have actually beaten expectations and another 13% have matched according to S&P Capital IQ. Remember though that consensus numbers came down through the quarter. Although profits so far are up 5.4% overall, they have decelerated the last several quarters and Revenues have actually declined .6%. So again, companies are doing it thru cost-cutting and belt-tightening. Also note that of the 103 companies that have given forward guidance, negative projections hold a 2.5 to 1 advantage. As a matter of fact, the WSJ is reporting that Q3 earnings by S&P 500 companies are expected to shrink for the first time in 10 quarters. Declining profits will cause companies to rethink capital expenditure budgets and may lead to another round of layoffs. Not what the economy needs right now.

Another major issue for companies is the strength of the US dollar which is cutting into US companies' profits after translation and hurting exports. The dollar rose 5% against the Euro in the 2nd quarter alone and companies can't cut costs or raise prices fast enough to offset this. On the positive side, companies that operate overseas can benefit as its dollar costs decline and they also receive greater buying power for supplies and potential acquisitions.

At the risk of being too verbose, I will cut it off here today. Let me try to give a few potential positives among all the negatives in the marketplace. Perhaps putting a floor on the market some positives include

* continuing lower interest rates (sharply lower in the past month),
* aggressive global central bank stimulative monetary action,
* lower energy and commodity prices,
* and a stable to improving housing market in the US.

Granted it is not a lot but it is something to build off. I won't recite the growing wall of worry as I'm sure you are all aware of the multitude of issues. But it seems that barring an unforeseen macro geo-political event, maybe the market can get through the rest of the summer by staying in its trading range of 1300 to 1400. Right now we are near the top of the range so be careful going long the market as August rolls in and everyone heads off to vacation.

BTW, speaking of vacation, I will be heading to Italy for some "wine research" for 10 days in August so you will not hear from me for a few weeks. I hope to come back with some great wine and food ideas as well as refreshed for the 2nd half of the year.

***Ciao e hanno un grande il resto dell'estate! (Have a great rest of the summer)***

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**Economy**

The big news last week was that the US GDP grew by 1.5% in the 2nd quarter. Over the last 12 quarters since the recovery began, the "Obama Recovery" has led to a whopping 1.6% growth, less than half the post-WW2 average. Worse, real disposable income has grown only .3%.

New orders for durable goods rose 1.6% in June.

New claims for unemployment insurance fell 35,000 last week to 353,000. Continuing claims declined 30,000 to 3.29 million

New home sales fell 8.4% last month; they are still up 15.1% from a year ago

**Bonds**

Friday Close Prior Week Comment

**10-yr UST yield** 1.55% 1.46%. Yields backed up after the stock rally

**30-yr UST** 2.63% 2.55%

**ML High Yield 100** 6.05% 6.14

**30-yr Fixed** **Mtg** 3.68% 3.75%. refis picking up again

**Commodities & Currencies**

Friday Close Prior Week Comment

**Gold/oz** $1617.9 $1582.5 Gold rally. Some think it may move higher on short squeeze.

**Crude Oil** $90.13 $91.44

**NYMEX Nat Gas** $3.010 $3.081

**$ per Euro** 1.232 1.2158 Hit 1.20 before Thursday and Friday rally.

**Yen per $** 78.45 78.48

**Reuters CRB** 299.6 304.57 Commodity prices fell a bit.

**Stocks**

Stocks surged on Thursday and Friday with the S&P up 3.6 % after the ECB chief pledged to do whatever it takes to save the Euro. The S&P 500 closed the week up 1.7% at 1386 while the Dow rose back above 13,000 to 13076 up 1,9%. The NASDAQ rose 1.1% to 2958 despite Apple falling sharply

European stocks rallied with the Euro Stoxx 600 gaining .64% to 259.8. Italy rose 4% while Spain jumped 5.9%.

Asia/Pac stocks fell during the week with the index dropping .71%. China dropped 1.84%

DJ Americas stocks rose with the index up 1.66%. Brazil jumped 4.3% while Mexico rose 1.64%.

**Weekly Index Performance:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Dow Jones Industrials** | 13,076 | 253 | 1.97% |
| **S&P 500** | 1386 | 23.3 | 1.71% |
| **NASDAQ Comp** | 2958 | 33 | 1.12% |
| **S&P Mid Cap** | 949 | 9.4 | 1.0% |
| **S&P Small Cap** | 446 | 2.69 | .61% |
| **Russell 2000** | 796 | 4.5 | .56% |
| **Euro Stoxx 600** | 259.8 |  | .64% |
| **Dow Asia/Pacific** | 119.6 |  | -.71% |

|  |  |
| --- | --- |
| **Strong Sectors** | Telecom, Financials, Industrials |
| **Weak Sectors** | Tech, Utils, Cons Svcs |
| **NYSE Advance/Decline** | 1893 / 1269 |
| **NYSE New High/Low** | 411 / 190 |
| **AAII Bulls/Bears** | 28.1% / 43.1% |

Have a great week!

Bob

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***From the Desk of Bob Centrella, CFA: July 23, 2012***

***"A look at some Earnings; Spain and Greece are back at it"***

**Tired of trying to figure this market? *Take advantage of our Free Portfolio Review Offer***

***Dear Friends,***

The first week of earnings season brought a mixed bag but on the whole the numbers released by some of the most watched companies were in-line or better than expected. I thought that I'd do something different this week and give you a flavor of what some of the biggest companies said this past week.

Last week in the stock market as has often been the case lately, Europe stepped in to help ruin the Dow's party at the end of the week. More specifically, Spain played the role of official party-pooper, with the country's benchmark 10-year bond yields rising above 7%, a level that's unsustainable. The country's Valencia region announced that it will ask the Spanish government for help refinancing its debt, and Spain lowered its 2013 full-year GDP estimate, saying it expects GDP to contract in 2013 by 0.5%. As a result the market sold-off on Friday and it appears that today is going to show a big decline of up to 200 points on the Dow with Greece also joining the party with its PM warning that a great depression is a possibility.

So here we go again. The same bad news being said in another way. As Al Pacino said in the Godfather "Just when I thought I was out, they pulled me back in!" Just when it seemed Investors were trying to put aside the Euro worries for a while to get back to fundamentals a dose of reality hits and we are sucked back into the European macro headlines. We had a run in the market so now it's time to give back. Several traders I have talked to have told me that when the S&P gets above 1360-1370 they sell the market. When it gets back to 1280-1300 they buy the market. Currently the S&P is at 1362 so if that holds we could be in for a little decline. Let's watch.

Below are the results for 4 bellweather stocks, Coke, Intel, American Express and General Electric. Note that I am not recommending buying or selling these companies but since these are multinationals I think they give a good read-thru on what's going on worldwide.

Coca Cola (KO $76.87) Coke started the week off on a good note by reporting earnings and revenue ahead of consensus due to better volume growth in certain international markets. Regarding trends in the US, Coke noted that consumption trends began weakening later in May citing the economy as a reason. The pricing environment was stable to good allowing the company to grow without price discounts. Headwinds looking forward include FX due to a stronger dollar and challenging worldwide macro conditions. KO mentioned that the situation in Europe is affecting consumer demand as volume declined 4% and they also cited a deceleration of growth in China. Overall Coke's exposure to markets around the world is a good barometer of consumer spending. It has a diverse geographic footprint and overall it is seeing some markets do well while others are not. Although the company is thought to be resistant to weakening economic growth it is not immune. However, with pricing stable and volume still growing in key markets, KO is in good position to weather the storm.

Intel (INTC $25.58) is the world's largest semiconductor chip company. The company reported good results for the 2nd quarter but guided estimates down going forward due to the macro environment. I also note that that its inventory level increased to 90 days which is bow 15 days above its historical average. With inventory higher and demand slackening there could be an inventory correction is demand doesn't pickup. As a read-thru for other companies, you should keep an eye on inventory levels to be sure companies aren't stuffing the channels to get product out the door. On a positive note for others in the industry, INTC expects to capital expenditures to increase 16% as the company is building 2 new fabs. The company noted strength in the Americas and China with weakness in Europe. Intel believes the macro slowdown is modest and expects second half shipments to exceed 1H due to numerous ongoing trends and the upcoming Windows 8 launch in October.

American Express (AXP $55.81) AXP stock fell 3.7% on the week even after reporting upside to earnings as investors were concerned that customer credit card spending increased 7% a slowdown from recent quarters. Charge-offs and delinquencies remained low a positive sign amid macro uncertainty. International billed business grew only 3% mostly due to sluggish Europe and a stronger US dollar. Overall basic card spending was up 5% and card loans up 4%, a slowdown from prior quarters. So in terms of a read-thru on a macro level, consumer and business spending is growing but at a slower level. International spending slowed more significantly as expected and the stronger dollar is a translation headwind. Another potential upcoming positive for AXP and other multinational companies, comps begin to get easier in Europe at the end of the summer as companies lap a year of weakness. AXP also exhibited good expense control as it often does to manage its earnings. Key risks include further regulation, litigation risk, a slowdown in the global economy, and credit deterioration.

General Electric (GE $19.87) As a multi-industry conglomerate GE touches many parts of the worldwide economy with business in Industrial, Energy, Finance, Aviation and Health Care as well as other sectors. Overall industrial revenues grew 10% while margins improved modestly. There are so many moving parts at GE that I will not go thru each business line but some key takeaways are as follows. Energy pricing improved, industrial margins were stable and backlog is at a record $204 billion. Although GE is affected by macro sluggishness and FX, many of its businesses are late/long cycle so short-term fluctuations have a smaller affect on those businesses. Another positive sign is that GEs Real Estate segment posted solid net income as it continues to distance itself from the credit crisis. There were some negatives in the quarter as well including a 1% industrial order decline (vs a tough 33% increase last year) as Oil & Gas equipment sales were flat and Aero sales suffered in Western Europe. Healthcare decelerated to flat revenues and US orders while Euro orders fell 13%. China orders grew 26% and overall China sales climbed 24%. GE Capital turned in a solid quarter and it resumed dividend payments to the parent with a $3 billion payment. So overall, with its diverse portfolio of businesses GE seems to be well positioned to weather the macro storms but we should keep an eye on the company to get a great read on the industrial economy.

Earnings for some other companies and their results versus expectations included Union Pacific +, Baxter =, Phillip Morris International +, JNJ -, Matel +, IBM +.

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**Economy**

Existing Home Sales Fell 5.4% in June to an Annual Rate of 4.37 Million Units. Existing home sales fell in June but still remain up 4.5% from a year ago.

Housing Starts Increased 6.9% in June, Up 23.6% Versus a Year Ago and the highest level since October 2008. Single-family starts increased 4.7% and are up 21.7% from a year ago; multi-family starts increased 12.8% in June and are up 28.5% from a year ago.

In other news this morning, new claims for unemployment insurance increased 24,000 last week to 386,000. The increase comes after a sharp decline the prior week and both large moves are related to shifts in the timing of retooling at auto plants

Industrial production rose .4% in June. Manufacturing, which excludes mining and utilities, rose a very strong 0.7%. Industrial production is up 4.6% from a year ago, growing more than twice as fast as real GDP

**Bonds**

Friday Close Prior Week Comment

**10-yr UST yield** 1.46% 1.49%. Heading to record low yield

**30-yr UST** 2.55% 2.576%

**ML High Yield 100** 6.14% 6.29 Investors got to get yield somewhere.

**30-yr Fixed** **Mtg** 3.75% 3.81%.

**Commodities & Currencies**

Friday Close Prior Week Comment

**Gold/oz** $1582.5 $1591.6

**Crude Oil** $91.44 $87.10 Oil up 8% or $7 in 2 weeks.

**NYMEX Nat Gas** $3.081 $2.874 Up 11% in 2 weeks. Back above $3.

**$ per Euro** 1.2158 1.2248 Fell with Spain's news. 1.20 is in sight.

**Yen per $** 78.48 79.20

**Reuters CRB** 304.57 293.96 Commodity prices continue to rise following oil and gas, up 4.17%.

**Stocks**

The DJIA fell 120 points on Friday to 12,822 almost wiping out 4 days of gains as investors were shaken by news out of Spain and debt worries crept back into the market. For the week the DJIA managed a .36% gain while the S&P 500 closed .43% higher at 1363 and the NASDAQ rose .58% to 2925. Small and mid-cap stocks declined slightly as investors again showed preference for large caps.

European stocks sold-off sharply on friday but still managed a weekly gain with the Euro Stoxx 600 gaining .75% to 258. There were mixed results for the week as Spain fell 6.28% and Italy dropped 4.72% while Belgium, France and Germany registered gains. It's become a bipolar market of haves and have-nots recently.

Asia/Pac stocks climbed during the week with the index rising .87%. Hong Kong rose 2.87%, Australia +2.86% while China dropped .79%

DJ Americas stocks rose with the index up .46%. Brazil fell .25% while Mexico rose .77%. Canadian stocks rose .94% but are down -2.8% for the year.

**Weekly Index Performance:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Dow Jones Industrials** | 12,822.57 | 45 | .36% |
| **S&P 500** | 1362.66 | 5.88 | .43% |
| **NASDAQ Comp** | 2925.3 | 16.83 | .58% |
| **S&P Mid Cap** | 939.71 | -2.97 | -.32% |
| **S&P Small Cap** | 443.63 | -3.75 | -.84% |
| **Russell 2000** | 791.54 | -9.45 | -1.18% |
| **Euro Stoxx 600** | 258.17 | 5.91 | .75% |
| **Dow Asia/Pacific** | 120.49 | 1.04 | .87% |

|  |  |
| --- | --- |
| **Strong Sectors** | Energy, Tech, Materials |
| **Weak Sectors** | FInancials, Staples, Telecom |
| **NYSE Advance/Decline** | NA |
| **NYSE New High/Low** | 135 / 39 |
| **AAII Bulls/Bears** | 30.2% / 34.7% Still bearish to neutral |

Have a great week!

Bob

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***From the Desk of Bob Centrella, CFA: July 17, 2012***

***"Earnings are coming, the Earnings are coming!"***

***Dear Friends,***

I got several comments about my Cape Cod excursion. For the record it was only for 2 nights a week ago, golf and a Cape Cod league baseball game with a friend and staying at his relative's house, but it was a lot of fun. Hard to believe but It was my first trip ever to the Cape (although I've had many Cape Codder Vodka and Cranberry drinks:). I'm open to suggestions for the best place at the Cape to take the family so please let me hear your comments for a future vacation. The only Cape I had ever gotten to was Cape May, a bit different but I think one of Jersey's best beaches.

OK, I feel refreshed after another volatile week in the market. This week the "Earnings are coming, the Earnings are coming" as corporate earnings take center stage. Last Friday's rally rescued investors from a 6-day equity losing skid. Some better than expected news about the China economy where its 2nd quarter GDP "slowed" to 7.6% from 8.1% in Q1 put to rest near-term fears that a hard-landing is coming. The whole market took off on Friday ending 6 days of selling as the market got a bit oversold and fatigued on negative headlines.

We also had a few companies report earnings last week, including JP Morgan which announced that its hedging loss was more like $6 billion rather than $2 billion. The huge loss was actually a relief to investors and contributed to the rally. A rumor started early in the week that it could be as large as $9 billion sending the stock lower. (I wonder if Jamie Diamond started that rumor so the $6 billion number would actually look good!). As it turns out, the stock did rally 6% on Friday with the news and the rest of its earnings report. The rest of earnings season really gets in gear starting this week with a number of large companies reporting including IBM, Intel, Microsoft, American Express and GE. I believe that investors are expecting mostly weak numbers, especially for companies doing business in Europe and China. Particular attention should be paid to what is said about the current tone of business and the future outlook for the rest of 2012.

Looking to the potential for stock gains, if companies can pull a rabbit out of the hat and show even a little upside, that could help keep the market from its typical July doldrums and give us a relief rally. There is a lot of negativity so positive news could have an outsized effect. On the flip side, as it stands now the S&P 500 is about where it was a year ago before it got whacked. Any worse than expected news or just bad news as expected could cause the market to head downward again. If I were to handicap the outcome, I would probably be in the 60% to 40% camp that earnings will be weaker than expected. I hope I am wrong as this market has been remarkably resilient despite the volatility as time and again it keeps coming back from the brink. With rates so low, investors really are almost forced to look to stocks for some return. However, I believe that all the uncertainty (election, fiscal cliff, debt ceiling, China, Europe, blah, blah, blah...) will make it hard for a rally to sustain itself.

My advice during earnings season is to keep your shopping list handy. There will definitely be some great companies that may miss earnings and will go on sale. Assuming the problem is a short-term one for that company (or companies) it is often a good time to consider initiating a position. Also, it is a good time to add to strong companies that produce solid earnings and give an upbeat outlook.

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**Economy**

Producer prices rose 0.1% in June, coming in much higher than the consensus expected decline of 0.4%. The increase in the PPI was the first in four months. Energy prices are down at a 23.5% annual rate over the last three months. "Core" prices, which exclude food and energy, and which the Federal Reserve claims are more important than the overall number, were up 0.2% for the fourth straight month in June. Core prices are now up 2.6% from last year, which is much faster than the overall PPI. In the past six months, the core PPI is up at a 2.8% annual rate while overall prices are down at a 1.2% rate.

New claims for unemployment insurance fell 26,000 last week to 350,000, the lowest since March 2008. Continuing claims fell 14,000 to 3.30 million. This is likely a season adjustment.

The trade deficit in goods and services came in at $48.7 billion in May, almost exactly as the consensus expected. In the last year, exports are up 4.2% while imports are up 3.8%.

Interestingly, increasing energy production in the US is having large effects on trade with other countries. Real (inflation adjusted) oil exports have tripled since 2005, while real oil imports are down about 20%. As a result, the real trade deficit in oil has been cut almost in half in the past several years and is the smallest since at least the early 1990s.

**Bonds**

Friday Close Prior Week Comment

**10-yr UST yield** 1.49% 1.55%. Record low yields in Treasury auction. The 10-yr was almost 3% a year ago!

**30-yr UST** 2.576% 2.663% 30-yr yield was over 4% a year ago.

**ML High Yield 100** 6.29% 6.33% Yield was 7% a few weeks ago. Investors chasing yield.

**30-yr Fixed** **Mtg** 3.81% 3.81%.

**Commodities & Currencies**

Friday Close Prior Week Comment

**Gold/oz** $1591.6 $1578.40 Gold rallied .84%. Still not acting like a hedge.

**Crude Oil** $87.10 $84.45 Oil rallied by 3.14%.

**NYMEX Nat Gas** $2.874 $2..776

**$ per Euro** 1.2248 Euro fell below 1.22 only to rally on Friday. I'm still banking on 1.20

**Yen per $** 79.20 79.66 Yen/$ has remained in the 79 to 81 range.

**Reuters CRB** 293.96 286.92 Commodity prices continue to rise, up 2.45%.

**Stocks**

The DJIA jumped 203 points on Friday as investors were buoyed by US banking earnings and economic news from China. That again erased earlier week losses and lifted the average to a slight weekly gain. The S&P 500 closed .16% higher at 1357 while the NASDAQ dropped .98% to 2908. Small and mid-cap stocks declined slightly as investors showed preference for large caps.

European stocks rallied with the Euro Stoxx 600 gaining .7% to 256.26% shrugging off Moody's decision to downgrade Italian debt. Belgium, France and Germany registered gains while Spain and Italy fell. For the year Spain is off 22%, Italy is down 9% and Germany is up 11%.

Asia/Pac stocks sold off during the week dropping 2.64%. Hong Kong fell 3.58%, Taiwan was off 3.59% while China dropped 1.69%

DJ Americas stocks were flat for the week with the index down .08%. Brazil fell 1.92% while Mexico rose 1.67%.

**Weekly Index Performance:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Dow Jones Industrials** | 12,777 | 4.6 | .04% |
| **S&P 500** | 1356.78 | 2.10 | .16% |
| **NASDAQ Comp** | 2908 | -28.86 | -.98% |
| **S&P Mid Cap** | 942.68 | -4.59 | -.48% |
| **S&P Small Cap** | 447.38 | -1.33 | -.30% |
| **Russell 2000** | 801 | -6.15 | -.76% |
| **Euro Stoxx 600** | 252.26 |  | .7% |
| **Dow Asia/Pacific** | 119.45 |  | -2.64% |

|  |  |
| --- | --- |
| **Strong Sectors** | Utilities, Healthcare, Financials |
| **Weak Sectors** | Technology, Materials, Industrials |
| **NYSE Advance/Decline** | 1619 / 1541 |
| **NYSE New High/Low** | 485 / 93 |
| **AAII Bulls/Bears** | 30.2% / 34.7% Still bearish to neutral |

Have a great week!

Bob

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***From the Desk of Bob Centrella, CFA: July 2, 2012***

***"Deal on the Table - Back to Fundamentals?"***

First I congratulate Spain for putting a beat down on the Italians to win the Euro Cup. That was a tough loss as Forza Italia never was in the game. Unofficially, Spain won the rights to the first 100 billion Euros in what I like to call the "Bailout Bowl". Also, I wish everybody a Happy Independence Day as our country officially celebrates 236th year of independence with all the great US traditions like BBQs, fireworks, baseball, parades, politics, horseshoes, Bocce. Bocce? I wanted to see if you were paying attention. Well maybe not all Americans, but I will definitely be challenging some friends to a game of Bocce in the backyard with a few Rolling Rocks in hand.

Unless you were away or under a rock somewhere you know that last week saw a lot of action by week's end. The 2nd quarter came to a close with early 4th of July fireworks. On Thursday the Supreme Court threw a major curveball to all the pundits and upheld Obamacare. Chief Justice Roberts became enemy #1 to most conservatives by siding with the 4 more liberal jurors on a 5-4 vote. Repercussions of this bill reach far beyond health-care as a major precedent was set by the vote for many other potential challenges in the future. However, Roberts upheld the chief clause of a requirement for insurance for all Americans by claiming that the penalty for noncompliance was actually a tax. As Alan Abelson of Barron's stated, "all Americans can now look forward to getting sick".

On Friday investors made a major rush to risk assets as a deal was actually reached by Euro Summit leaders to provide a bailout directly to Spanish banks and began a framework for support to struggling banks under a single bank supervisor. Many see this as a potential first step towards greater monetary union which may eventually lead to fiscal unity down the road. (Correction, the summit was the 19th since 2010. Last week I said I though it was the 14th.) This sent markets all over the world flying upwards as investors were surprised on the upside. I must point out that although the debt deal averts a near-term meltdown, the debt problems are still deep-rooted and the fact still remains that the countries are not growing.

What both these events did was remove a major piece of uncertainty from investors minds. Granted there is still a lot of details to work through in both instances, however, removal of uncertainty could possibly lead to a road back to valuing the market on fundamentals. We can now concentrate on economic data and 2nd quarter earnings announcements in the coming weeks. Looking ahead, there is obviously the US election and fiscal cliff looming, but for now it looks like fundamentals are back in play. The other major wildcard that continues to gain center stage is the China slowdown. Many now see a hard landing and this obviously would have a negative worldwide effect as China growth had been carrying so many multinational companies. The big drop in commodity prices can be largely attributed to the slowdown. If you get a chance you should pick-up this week's Barron's to read their detailed piece on the Chinese economy.

If you look at a 1-year chart of the S&P 500 ( [Chart S&P 500](http://data.cnbc.com/quotes/.SPX/tab/2" \o "Chart S&P 500" \t "_blank) ), it is interesting to note that with last week's rally the index now sits a few points above where it was 1 year ago. The S&P 500 closed Friday at 1362 only 4% below the high reached in April. Last July 7th it closed at 1353. Unfortunately, we all know what happened last year when the market dove in late July and August over these same Euro worries. Although Europe is still in the cross-hairs, other circumstances from a year ago are much different. LT interest rates are down, commodity prices are much lower, the Fed and other central banks have poured hundreds of billions of dollars (and Euros) into the financial system and the dollar is stronger. So, although we could easily see a market selloff with a dose of bad news, underlying circumstances could be said to be in a better position than a year ago.

So in conclusion, I think it is back to fundamentals for the near-term. With the holiday coming midweek, trading could be light until Friday when we get the unemployment report. With the EU cloud of uncertainty lifted, stocks could stay in positive territory and then trade off the unemployment report. Earnings come into play starting next week and be prepared for what could be a rocky earnings season. We've already had some pre-announcements of weak earnings and growth is expected to be slower for corporate profits this quarter. For the market to move higher, we need decent earnings and solid outlooks. Any positive developments would be the needed lighter fluid to send the market higher. Although we are about to start the weakest month for market performance, positive earnings announcements would be a spark for a summer rally. However, given the current US and worldwide economic weakness, the odds are not in favor of that happening.

Have a great 4th!

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**Economy**

Personal Income increased .2% in May and Personal consumption was unchanged, both matching consensus. For the past year personal income is up 2.9% while spending is up 3.5%.

New single-family home sales increased 7.6% in May, to a 369,000 annual rate, easily beating the consensus expected pace of 347,000. The months' supply of new homes (how long it would take to sell the homes in inventory) fell to 4.7 from 5.0 in April.

New orders for durable goods increased 1.1% in May, beating the consensus expected gain of 0.5%. Orders excluding transportation rose 0.4%, coming in slightly below the consensus expected gain of 0.7%. Overall new orders are up 4.6% from a year ago, while orders excluding transportation are up 3.8%.

New claims for jobless benefits declined 6,000 last week to 386,000. Continuing claims for regular state benefits fell 15,000 to 3.30 million.

The Chicago PMI index, which measures manufacturing activity in that area, came in at a 52.9 for June, beating consensus expectations.

**Bonds**

Friday Close Prior Week Comment

**10-yr UST yield** 1.66% 1.67%. Yields moved lower early in the week and then bonds sold off Friday.

**30-yr UST** 2.76% 2.76%

**ML High Yield 100** 6.90% 7.02%. With risk on investors bought high yield.

**30-yr Fixed** **Mtg** 3.81% 3.78%.

**Commodities & Currencies**

Friday Close Prior Week Comment

**Gold/oz** $1603.5 $1566 Gold is now a risk asset so it rallied.

**Crude Oil** $84.96 $79.76 Oil rallied by 6.5%.

**NYMEX Nat Gas** $2.824 $2.625 A near 6% rise for nat gas

**$ per Euro** 1.2661 1.257 Euro soared on Friday with the Euro deal. However, I still think 1.20 is in the cards.

**Yen per $** 79.81 80.43

**Reuters CRB** 284.19 267.97 Commodity index up 6% with rallies in gold, copper, oil, gas, etc..

**Stocks**

The DJIA jumped 278 points on Friday as investors cheered the EU deal. That erased earlier week losses and lifted the average to a 2.2% gain. The S&P 500 closed 2% higher at 1362 while the NASDAQ rose 1.47% to 2935. Small and mid-cap stocks fared even better as investors' risk appetites grew. For the 2nd quarter, the S&P fell 3.3%, the DJIA fell 2.5% and the NASDAQ dropped 5%.

European stocks rallied for a third week with the Euro Stoxx 600 gaining 1.86%. Spain jumped 3.3%, Italy +4.5% and Belgium 4.8%.

Asia/Pac stocks rose with the DJ./Asia index up 2.64%. India rose 2.7% and Japan +2.37%. China fell another 1.57% on continuing weak economic news.

**Weekly Index Performance:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Dow Jones Industrials** | 12,880 | 239 | 1.89% |
| **S&P 500** | 1362.16 | 27.14 | 2.03% |
| **NASDAQ Comp** | 2935 | 42.6 | 1.47% |
| **S&P Mid Cap** | 941.64 | 25.5 | 2.78% |
| **S&P Small Cap** | 445.44 | 14.14 | 3.28 |
| **Russell 2000** | 798.5 | 23.33 | 3.01% |
| **Euro Stoxx 600** | 251.17 | 4.59 | 1.86% |
| **Dow Asia/Pacific** | 121.2 | 3.12 | 2.64% |

|  |  |
| --- | --- |
| **Strong Sectors** | Energy, Industrials, Basic Materials |
| **Weak Sectors** | Technology, Telecom, Consumer Goods |
| **NYSE Advance/Decline** | 2431 / 742 |
| **NYSE New High/Low** | 346 / 147 |
| **AAII Bulls/Bears** | 28.7 /44.4% Surprising change in bearishness |

Have a great week!

Bob

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**JUNE 2012 NEWSLETTER ARCHIVE**

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***From the Desk of Bob Centrella, CFA: June 25, 2012***

***"There is a lot going on out there - and a busy week ahead"***

***Dear Friends,***

Forza Italia! "Complimenti" to the Italian national team in advancing to the Euro Cup semis with a hard fought win over England. Although I'm really not much of a soccer fan, I do like to follow the namesake team of ***Forza investment Advisory***at major Cup events. Both squads showed a never quit attitude and Italia finally won it in a penalty kick shootout. Perhaps the EU governments can take a cue from all these hard-fought games and adopt some of the determination that the athletes show to construct a plan for fiscal unity at the upcoming summit (yes, yet another one) this week. I've always been a firm believer that companies and even governments can learn a lot from how teammates work with each other to achieve their goal. As they say, there's no "I" in team. (Of course, the old comeback line is that there is no "we" in team either.)

Anyway, on to the real world and its problems. Where to start? At the beginning of last week the markets rallied on hopes of good news coming from the Fed during the Tues/Wed Federal Reserve meetings. The optimism fades and the selloff came Thursday after no big news came other than the Fed extending "Operation Twist" to year-end. You may recall that "Twist" is where the Fed buys LT debt and replaces it with short-term debt of less than 3 years. It's not hard to see why the market and investors were not enthused with the announcement. A "Twist" may be great in your martini but it really hasn't done much for the economy based on the recent results. Sure it has artificially kept borrowing rates low, but if a paltry 2% economic growth is the benefit of operation twist, then we obviously need something more. And frankly it is not up to the Fed to continue to try to rescue this economy. The Fed also signaled that QE3 (next round of quantitative monetary easing) is still in his bag of tricks if things get worse but they are not ready to use it yet. Maybe this is Ben Bernanke's way of tossing the ball back onto the court of the politicians for some fiscal policy.

Speaking of which, where the heck is our government? Where is a coordinated fiscal policy where both our political parties put aside their egos and differences and do what is right for the people? Oh yea, it is an election year so nobody wants to let their grand plan out of the bag yet. Republicans and Democrats must work together. Yes it's a pipe-dream, but what else is going to start us on a road to recovery? Since our current President took office it seems like both parties are further apart on issues than they've ever been. So much for governing from the middle.

Anyway, macro and Geo-political events continue to dominate the news and will continue to do so for quite some time. Moody's downgraded 15 Global banks on Thursday after the close. It was so expected that the markets actually rallied Friday since the news was now out of the way. China released manufacturing data that for the second month in a row is showing a contraction in activity. Commodity prices are getting creamed largely because of the fear of a hard landing in China. Oil is down almost 25% since the end of April which is actually a good thing for the US economy. The UBS-Commodity index is down 17.5% this year and the Reuters CRB index is off 18.8%. Many people are starting to talk about re-inflating the economy to get things moving.

This is going to be a big week for news-flow. I mentioned another EU Summit. I just heard that it will be the 14th summit. The other 13 worked so well, why not have another one!? At some point Germany will come around and they will start discussing fiscal unity and long-term solutions. It will take place on June 27/28 and leaders from 4 countries this past weekend already announced an endorsement to a plan for spending $160 Billion to spur economic growth. A good start but a lot more is needed and this summit is not likely to deliver much more. (The European markets are selling off today already.) Also, on July 5th the European ECB meets to discuss rate policy. The market is expecting a rate cut so if that does not occur be prepared for another possible selloff.

Finally, the Supreme Court ruling on Obamacare is due this week. This will be a very interesting decision for many reasons (that I will not get into). I don't know how market-moving it will be but it certainly can affect Healthcare stocks.

So again, what to do with stocks in this environment? There is still so much noise out there that it is impossible to make a firm move into equities. As for international equities, why try to be the hero. Going against asset allocation and diversification guidelines, I see no reason to have much, if any, international equity exposure in the near-term. This is a party I'd rather be late to. We are ending the quarter and heading into July, a month that historically has been one of, if not the worst, months for stock performance. I continue to suggest holding more cash than normal. You may not get much return but you will at least preserve capital. It seems like given all the uncertainty that US Treasury bonds will hold their value but to me the risk/reward is not worth it unless you are a trader. I would not sell bonds but I'd be careful on new positions in the long end. Currently with the 10-year bond at about 1.6%, equities clearly seem to hold a greater long-term opportunity. I want to get bullish on equities and I am for the long haul. But as a former investment colleague of mine used to say "the long-term is nothing more than a series of short-terms". And right now we need to get through the short-term first before becoming fully invested for the long-term.

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**Economy**

The Federal reserve announced they would extend "Operation Twist' until the end of the year citing weakening economic growth. They also said they will do whatever is necessary to help the economy while lowering their estimate for GDP growth to 1.9% to 2.4%.

Housing starts fell 4.8% in May to 708,000 units at an annual rate, below the 722,000 rate the consensus expected. Despite the decline in May, starts are up 28.5% versus a year ago. Single-family units rose 3.2% but MF units dropped 21.3%.

New building permits rose 7.9% in May to a 780,000 annual rate, coming in well above the consensus expected pace of 730,000. Compared to a year ago, permits for single-unit homes are up 19.9% while permits for multi-family units are up 34.9%.

Existing home sales fell 1.5% in May to an annual rate of 4.55 million units; basically matching the consensus expected 4.57 million units. Sales are up 9.6% versus a year ago.

The Philadelphia Fed index fell to -16.6 in June from -5.8 in May. Some view this dip as a recession sign. This is a bad sign for manufacturing activity.

New claims for unemployment insurance dipped 2,000 last week to 387,000 while continuing claims were unchanged at 3.30 million. These figures suggest tepid payroll growth in June: 45,000 nonfarm and 55,000 private.

**Bonds**

Friday Close Prior Week Comment

**10-yr UST yield** 1.67% 1.59%. Yields down as investors still worried. Odd since market rallied.

**30-yr UST** 2.76% 2.84% Yields backed up a bit opposite stocks.

**ML High Yield 100** 7.02% 7.35%. Investors chasing yield.

**30-yr Fixed** **Mtg** 3.78% 3.83%.

**Commodities & Currencies**

Friday Close Prior Week Comment

**Gold/oz** $1566 $1627 Commodities got hit

**Crude Oil** $79.76 $84.03

**NYMEX Nat Gas** $2.625 $2.467

**$ per Euro** 1.257 1.264 I still think 1.20 is in the cards.

**Yen per $** 80.43 78.70 Dollar strength.

**Reuters CRB** 267.97 272.23 Commodity index down almost 19% YTD.

**Stocks**

The DJIA fell 126 points or .99% to 12,641 while the S&P 500 lost 7.8 points or .06% to 1335. The NASDAQ gained 20 points, or .68% to 2892 and the Russell 2000 index rose .5% to 775.

European stocks rallied for a second week with the Euro Stoxx 600 gaining .97%. Spain jumped 2.34%, Italy +2.03% and Sweden 2.93%.

Asia/Pac stocks rose with the DJ./Asia index up .07%. Japan was a big gainer rising 2.67% while China fell 2% on the weak manufacturing news

**Weekly Index Performance:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Dow Jones Industrials** | 12,640 | -126 | -.99% |
| **S&P 500** | 1335 | -7.82 | -.85 |
| **NASDAQ Comp** | 2892 | 19.6 | .68 |
| **S&P Mid Cap** | 916 | -4.1 | -.45% |
| **S&P Small Cap** | 431 | 1.05 | .24 |
| **Russell 2000** | 775 | 3.8 | .50% |
| **Euro Stoxx 600** | 246.58 | 2.58 | .97% |
| **Dow Asia/Pacific** | 118.08 | .08 | .07% |

|  |  |
| --- | --- |
| **Strong Sectors** | Healthcare, Consumer Svcs, tech |
| **Weak Sectors** | Consumer goods, Utils, Energy, Tech |
| **NYSE Advance/Decline** | 1813 / 1363 |
| **NYSE New High/Low** | 260 / 86 |
| **AAII Bulls/Bears** | 32.9 /35.9% little change |

Have a great week!

Bob

***\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_***

***From the Desk of Bob Centrella, CFA: June 18, 2012***

***"One Down, sort of, and (at least) Two to Go"***

***\*\*NOTE: The Weekly Financial Data Sheet is attached\*\*.***

***Dear Friends,***

I hope all the Dads out there had a great Father's Day. For sports fans it was a great Sunday with baseball, soccer, basketball and the US Open Golf championship all available for viewing. Oh and the weather here in NJ was beautiful all weekend. Congrats to Webb Simpson for gutting out a US Open win. For those of us watching it was somewhat refreshing to see the pros struggle mightily with the golf course like us amateurs do on a weekly basis.

Out in the real world, the Greek vote took a slight turn for the better as the Pro-bailout party won the election. However, the margin of victory was slim and the new ruling party has barely generated enough political capital to implement real reforms. However, we'll mark it as one down and several to go as now we turn our attention to Spain and Italy. The market relief rally seemed to occur last week as today the US markets are not celebrating as really we are no closer to any solutions. So, on the plus side this is one less worry for the near-term as an uncertainty was resolved. This reduces the immediate risk of Greece leaving the euro zone. On the minus side, it's a baby step and there are still a lot of other minuses. I don't know about you but I am getting tired of talking about Greece for the last year. I mean, I love the olive oil and gyros but their political and fiscal system is a mess. I'm afraid we are stuck with a lot of conflicting news coming from Greece in the near and long term.

I'm going to cut it short today but looking ahead on the calendar we have the US Fed meeting and an update on a potential QE3 this week. Also coming is the G20 summit and the Eurozone meeting next week. So lots of news in the coming weeks. One other major decision that is forthcoming is the Supreme Court ruling on Obamacare. This is a big, big issue that will be getting more attention as a decision nears. There is a lot at stake and I'm personally hoping the SC strikes it down. More on this issue to follow in a week.

I continue to be in a waiting pattern not ready to commit any major capital with all the uncertainty out there. This is a marathon, not a sprint. There is no need to be in a hurry to invest. I suggest you continue to wait for good opportunities and then if you feel like you need to buy, do it in stages. If the Fed makes noise about a new round of monetary stimulus, then that would obviously set a better US tone. But, with the EU crisis still in the background don't go "all in".

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**Economy**

The Producer Price Index (PPI) declined 1.0% in May, coming in below the consensus expected drop of 0.6% mostly due to a drop in energy prices of 4.3%. Producer prices are up 0.7% versus a year ago. Core PPI excluding food and energy was up .2% and 2.7% from last year.

The Consumer Price Index (CPI) fell 0.3% in May, coming in below the consensus expected drop of 0.2%. The CPI is up 1.7% versus a year ago. Core CPI was up .2% and is up 2.3% from last year.

The economy showed weakness with retail sales declining for a second month down .2% in May. Sales ex-autos were down .4%. The steep drop in gas prices did contribute to the drop in sales.

New claims for jobless benefits increased 6,000 last week to 386,000. Continuing claims for regular state benefits declined 33,000 to 3.28 million.

Industrial production declined 0.1% in May, coming in short of the consensus expected gain of 0.1%. Production is up 4.7% in the past year. Overall capacity utilization moved down to 79.0% in May from 79.2% in April. Manufacturing capacity use fell to 77.6% in May from 78.0% in April.

**Bonds**

Friday Close Prior Week Comment

**10-yr UST yield** 1.59% 1.64%. Yields down as investors still worried. Odd since market rallied.

**30-yr UST** 2.84% 2.77% Yields backed up a bit opposite stocks.

**ML High Yield 100** 7.35% 7.49%. Risk rally. Spreads are attractive.

**30-yr Fixed** **Mtg** 3.83% 3.84%.

**Commodities & Currencies**

Friday Close Prior Week Comment

**Gold/oz** $1627 $1590 Gains back 2.3%.

**Crude Oil** 84.03 $84.10

**NYMEX Nat Gas** $2.467 $2.299

**$ per Euro** 1.264 1.2517 Dollar again loses a little steam. Euro remains stubbornly resilient.

**Yen per $** 78.70 79.48 Dollar weak a little.

**Stocks**

US Stocks rallied again at week's end with the DJIA climbing 1.7% to 12767 as the market seemed to discount some positive news on the Greek vote. The S&P 500 gained 1.3% to 1343 and the Nasdaq rose .5% to 2873. The S&P MidCap and SmallCap indexes split from the market and declined slightly. This an interesting development to follow. Smaller stocks often move ahead of their larger brethren on the downside.

European stocks rallied with the Euro Stoxx 600 gaining .94%. Spain jumped 2.55%, Italy fell .41%.

Asia/Pac stocks rose with the DJ./Asia index up 2.2%. Asia stocks are up sharply this morning too on the Greek news.

**Weekly Index Performance:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Dow Jones Industrials** | 12,767 | 213 | 1.70% |
| **S&P 500** | 1343 | 17.2 | 1.3% |
| **NASDAQ Comp** | 2873 | 14.4 | .50 |
| **S&P Mid Cap** | 920 | -5.7 | -.62% |
| **S&P Small Cap** | 430 | -.77 | -.18 |
| **Russell 2000** | 771 | 2.1 | .28% |
| **Euro Stoxx 600** | 244 | 2 | .94% |
| **Dow Asia/Pacific** | 118 | 2.6 | 2.2% |

|  |  |
| --- | --- |
| **Strong Sectors** | Telecom, Energy, Healthcare |
| **Weak Sectors** | Consumer, Materials, Tech |
| **NYSE Advance/Decline** | 21633 / 1526 |
| **NYSE New High/Low** | 188 / 127 |
| **AAII Bulls/Bears** | 34 /35.8% Bulls come back |

Have a great week!

Bob

### \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

### From the Desk of Bob Centrella, CFA: June 11, 2012

### "Calmer Waters for now"

### \*\*NOTE: The Weekly Financial Data Sheet is attached\*\*. Come back next week for my next Italian wines installment of favorite wines!

### Dear Friends,

Financial markets hit calm waters last week and it may continue into this week as euro-zone finance ministers crafted a deal to rescue Spanish banks to the tune of $125 billion. However, the market rose Friday in anticipation of a deal so the rally could be muted a bit as investors gauge the events that will unfold over the weekend. Greece remains a wild-card with its elections on Sunday along with a French parliamentary vote. If the leftist party were to win the Greek elections, the stock markets could be in for a shock. Latest polls amazing show the race neck-and-neck. Are the Greek people really that crazed that they would elect a leftist government?? Maybe a few of my Greek friends can send me an email and give me your thinking on what is going on in your native country...

You all recall the various Propositions that are on the California voting ballots? Well I have a new term for the various rescue plans in Europe. Let's call it a Prop-up-osition. So that would make the latest rescue maybe Prop-up-osition 2. (I'm sure there are others but I will count the original $1 trillion fund as #1 and this as #2). How long can the Euro-zone ministers keep propping up the economies and applying band-aids before they actually do some real reform and with hard solutions? I'm no international economist but it appears that Germany has to agree to Euro-bonds and ministers must craft a coordinated economic and financial policy before this potential contagion spreads. What will it take for Germany to sacrifice their sovereign strength for the good of the overall euro-zone?

Regardless, now that a Spanish deal for their banks has been crafted, analysts see 2 more pieces of the puzzle that must fall in place. First is an easing of the austerity measures in Greece as either new government takes charge and second is a reduction in euro-zone interest rates accompanied by a lot more cheap money for the financial system. There are still so many unanswered questions and typically markets hate unanswered questions. I still believe that we are in for a very rocky summer but any continuing flow of good/stable news obviously is much more welcome than uncertainty. However, don't be fooled. Not all the news will be good. There will be ups and downs and the rest of June is filled with plenty of news.

I can't wait til I can start buying and selling stocks on fundamentals again. Conventional financial and economic analysis is now basically unusable in trying to analyze the unfolding drama in Europe and how US stocks will be affected. I continue to work on my list of companies to buy. I continue to try to upgrade the portfolio with what I consider to be higher quality companies. There may come some great buying opportunities this summer as the drama plays out. Taking the longer term view and blocking out the short-term in building or upgrading portfolios. Oh, and don't forget to write your favorite congressman about the upcomeing fiscal cliff. That will continue to come more into focus as the year progresses.

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**Economy**

Economic news was a little light this past week and took backseat to news out of the Eurozone. Bernanke testified before Congress but did not reveal whether a QE3 is in the cards.

The ISM non-manufacturing index rose to 53.7 in May, coming in slightly above the consensus expected 53.4. The ISM services index has now remained above 50 for 29 straight months signaling continued growth

The trade deficit in goods and services came in at $50.1 billion in April, slightly larger than the consensus expected deficit of $49.5 billion. The monthly trade deficit is $6.5 billion larger than a year ago. Adjusted for inflation, the trade deficit in goods is $3.8 billion larger than last year. This is the trade measure that is most important for measuring real GDP.

New claims for unemployment insurance dipped 12,000 last week to 377,000. Continuing claims for regular state benefits increased 34,000 to 3.29 million.

**Bonds**

Friday Close Prior Week Comment

**10-yr UST yield** 1.64% 1.46%. Yields backed up a bit with market rally.

**30-yr UST** 2.77% 2.52% Yields up with stock rally.

**ML High Yield 100** 7.49% 7.68%. High Yield Bonds are considered risky assets. Risk back on last week.

**30-yr Fixed** **Mtg** 3.84% 3.89%. Rate actually fell despite 10-yr move.

**Commodities & Currencies**

Friday Close Prior Week Comment

**Gold/oz** $1590 $1620 Loses almost 2%.

**Crude Oil** 84.10 $83.23 Stayed low despite stock rally.

**NYMEX Nat Gas** $2.299 $2.326

**$ per Euro** 1.2517 1.24 Dollar loses a little steam. Euro remains stubbornly resilient.

**Yen per $** 79.48 77.99

**Stocks**

US Stocks rebounded from oversold conditions and had their best weekly gain of the year. The S&P 500 gained 3.7% to 1325 and the Dow rose 3.6% to 12,554.

European stocks rallied with the Euro Stoxx 600 gaining 2.91%. Spain jumped 8.03%, Italy +5.54%.

Asia/Pac stocks rose only slightly with the DJ./Asia index up .10%. Asia stocks are up sharply this morning.

**Weekly Index Performance:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Dow Jones Industrials** | 12,554 | 436 | 3.6% |
| **S&P 500** | 1325.66 | 47.6 | 3.7% |
| **NASDAQ Comp** | 2858 | 111 | 4.04% |
| **S&P Mid Cap** | 926 | 29.8 | 3.33% |
| **S&P Small Cap** | 431 | 16.07 | 3.87% |
| **Russell 2000** | 769 | 31.77 | 4.31% |
| **Euro Stoxx 600** | 242 | 7 | 2.91% |
| **Dow Asia/Pacific** | 115.4 |  | .1% |

|  |  |
| --- | --- |
| **Strong Sectors** | Financials, Tech, Energy |
| **Weak Sectors** | Consumer, Utils, Telecom |
| **NYSE Advance/Decline** | 2613 / 569 |
| **NYSE New High/Low** | 164 / 202 |
| **AAII Bulls/Bears** | 28 /45% Bears are still out |

Have a great week!

Bob

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***From the Desk of Bob Centrella, CFA: June 4, 2012***

***"A Look at Headlines from Around the World"***

***Dear Friends,***

You know it was once said that the funny thing about the Evening News is they start the shows off by saying "Good Evening" then spend the next hour telling you why it isn't! Why the obsession over bad news? When I was working in NY as a portfolio manager during my previous employment one of my favorite market indicators, especially during tough times, was reviewing and counting headlines in the Wall Street Journal to compare positive versus negative stories. My line of thinking was (and is) that until some good or stable news replaces the negative news, the markets can't begin to heal. So on that note, following are some headlines from this Friday and Saturday:

Crisis in Europe Takes a Toll on Asian Exports

Asia Strains under Euro Crisis

Leftists Narrow Gap in Mexico Race

Debt Strains hit Big Greek Lenders

African Nations Begin to Feel Pinch

India Economy Shows Sharp Slowing

Grim Jobs Report Sinks Market

Oil Plunges to 8-month Low on Weak US Jobs Report

**Santana Tosses First No-Hitter In Mets history**

EU Fiscal Pact is Approved by Irish Voters

Housing Market Crawls Back

Balanced Budget for Spain's Regions

Eurozone reports Deeper Gloom

Asia Weakness Heightens Fears of Contagion

Cyprus Seen Close to a Request for Bailout

Brazil Loses Steam as World Slows

There you have it. Can you believe it? After 50 years, ***finally*** somebody threw a no-hitter for the Mets. Even though I am a Yankee fan, congrats to Yohan (no I'm not Carlos the guitar player) Santana on ending years of futility for Met pitchers and fans.

Seriously, the headlines above are from only a few pages in 2 days of WSJ newspapers. I count maybe 3 positive stories. There were many other negative I could have printed too. Multiply that by the thousands for news outlets around the world and you can see that we are being bombarded by bad news. It's no wonder we all don't need anti-depression drugs. But the message is obvious, "It's bad out there". My old boss and I used to say that once all the (bad) news is out there, it's no longer (bad) news. In other words, a contrarian might say that there comes a point that it's so bad out there it can only get better. When you feel the worst, then you should probably think about buying. Having said that, unfortunately, it appears that there is still more bad news to come. So how much of the bad news is already baked into equity prices? Personally, I would say a lot but probably not all of it. This month will give us a lot more news.

A quick look at the market shows that the S&P 500 now trades at about 13x trailing earnings and 12x forward earnings (which might be overstated). It currently sits at 1278, close to the 1250 level that it seems to want to go back to again - which is the same level it started the year at and that it first crossed some 13 years ago. So, keep a careful eye on if this level of support holds this week. If not, a nice round number of 1200 looks like the next stop. Another level to watch is 1135, which would put us in a bear market (-20%) from the 1419 top reached back in April. Finally, the last bottom from October of 2011 was 1100, some 14% from here. Let's pray we don't get to either of those levels.

I'll end on a somewhat positive note. All of this news has increased the odds that the Fed will initiate another round of quantitative easing when the current QE2 expires at the end of June. Many will be watching the Fed meeting on June 18&19. Interestingly, this follows shortly after the June 17 Greek vote. Then the ECB meetings follow at the end of the month. Is another coordinated easing in the cards? Stay tuned and stay nimble. Personally, I am looking at some very strong companies getting cheaper and becoming attractive. I'm not ready to buy yet but I have my list and it is growing. Dividend yields look very compelling compared to a 1.4% yield on the 10-Year treasury. Do your homework and be ready for when the time comes. When that time comes however is still up for debate.

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**Economy**

Friday's much anticipated jobs report sent the US stock markets reeling. US nonfarm employers added just 69,000 jobs in May, the fewest in a year and well below optimistic economic forecasts of 130K to 150K. Moreover, April's gain of 115K was revised to 77K and March's 154K was lowered to 143K. Now matter how you slice it, it is tough to find a job out there and this was bad news -- especially for President Obama.

Real GDP was revised down to a 1.9% annual growth rate in Q1, exactly as the consensus expected. The original report from last month showed a 2.2% growth rate.

The Chicago PMI, a measure of manufacturing in that region, fell to 52.7 in May from 56.2 in April. This still indicates growth, just slower growth than last month.

The ISM manufacturing index declined to 53.5 in May from 54.8 in April, coming in below the consensus expected 53.8.

**Bonds**

Friday Close Prior Week Comment

**10-yr UST yield** 1.459% 1.74%. The 10-year is at the lowest yield ever.

**30-yr UST** 2.52% 2.80% Lowest since December 2008.

**ML High Yield 100** 7.68% 7.30%. High Yield Bonds are considered risky assets. These yields are even more attractive now.

**30-yr Fixed** **Mtg** 3.89% 3.97%.

**Commodities & Currencies**

Friday Close Prior Week Comment

**Gold/oz** $1620 $1569 Finally, Gold IS acting like a safe haven hedge.

**Crude Oil** 83.23 $90.86 Oil plummeted. Let's hope it reached the gas pumps soon.

**NYMEX Nat Gas** $2.326 $2.568

**$ per Euro** 1.24 1.25 Still talk of 1.20 next stop.

**Yen per $** 77.99 79.69 Yen continues to move.

**Stocks**

Stocks got derailed on Friday due to the jobs report and ended the week down sharply. The S&P 500 fell 3.02% to 1278, the Dow dropped 2.7% to 12118 and the NASDAQ fell 3.174% to 2747. Small and mid-caps fell even further.

European stocks fell hard with the Euro Stoxx 600 dropping 3.05% and now sits down 3.9% for the year.

Asia/Pac stocks were closed when the jobs report came out and the DJ./Asia index only fell .29%. Japan fell 1.63% but China rose 1.71%.

**Weekly Index Performance:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Dow Jones Industrials** | 12,118 | -336 | -2.70% |
| **S&P 500** | 1278 | -39.78 | -3.02% |
| **NASDAQ Comp** | 2747 | -90.05 | -3.17% |
| **S&P Mid Cap** | 896 | -38.39 | -4.11% |
| **S&P Small Cap** | 414.95 | -16.00 | -3.71% |
| **Russell 2000** | 737 | -28.99 | -3.78% |
| **Euro Stoxx 600** | 235 | -7 | -3.05% |
| **Dow Asia/Pacific** | 115.3 | - 1 | -.29% |

|  |  |
| --- | --- |
| **Strong Sectors** | Utils, telecom, Tech |
| **Weak Sectors** | Energy, Financials, Industrials |
| **NYSE Advance/Decline** | 588 / 2578 |
| **NYSE New High/Low** | 123 / 210 |
| **AAII Bulls/Bears** | 28 /42% Bears are back |

Have a great week!

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