# Review for the 3rd Quarter 2010 and future outlook

## Cruising on the QE2

When talking about the QE2, what typically comes to mind is the famous ocean liner. However when talking about the stock market in the third quarter, we are referring to a different QE2. The U.S. Federal Reserve injected huge sums of money into the markets through the purchase of U.S. Treasury bonds. This so-called policy of 'quantitative easing' was generally credited with sustaining low interest rates and nudging the stock market recovery. This is the second time the Fed has embarked on such a strategy, thus earning the nick name QE2—or quantitative easing, part two.

## Stocks rally

The Dow Jones Industrial Average rallied 10.4% in the third quarter to finish at 10,788. This was certainly good news for stocks but it also enabled the Dow to reverse the losses it suffered in the previous quarter. Markets around the world participated in the broad based rally. In Europe, the Stoxx 600 index was up 6.7%, the Indian Mumbai index rose 13% and Southeast Asia markets gained across the board. Even Greece, the worst performing market saw a 2.6% rebound from its low point in June.

## Is the recession over?

In late September it was reported that the recession was over—and that it ended in June 2009. That's right, The National Bureau of Economic Research (NBER), the group charged with determining when recessions officially start and end—indicated the recession ended over a year ago and we are now in a very slow recovery. While this news is encouraging, we believe that employment needs to improve for the recovery to take hold and be self sustaining.

## Near term headwinds

While stocks seem poised to continue their upward move, the action in gold, currencies and U.S. elections present near term challenges. Concerns have emerged recently about a trade war with China and gold hit an all-time high which can be a sign of potential inflationary pressures. Gold can also be viewed as a safe-haven investment to hedge against a falling dollar and European debt woes. The upcoming U.S. mid-term elections present uncertainty with tax policy and regulations.

## Good news: Strong balance sheets and low yields

According to Standard & Poor's, the industrial companies in the S&P 500 had a record amount of cash on hand. S&P estimates that cash levels total $843 billion which is double the average reading from 1980 through 2007. This is good news for a number of reasons; companies might use the cash to buy back stock, raise dividends, mergers and acquisitions, and purchase new equipment. The yield on the U.S. Treasury two-year notes finished the quarter at 0.43%, down from 0.63% three months ago. This scenario presented many companies with a rare opportunity to issue debt at record low rates—which helped contribute to the increase in cash levels.

## Recommended reading

If you've ever wondered what it was like to be young and rich on Wall Street in the 1980's—we recommend reading Liar's Poker by Michael Lewis. It's the story of the author's two year rise through the training program at Salomon Brothers, eventually becoming a hot shot bond salesman. Today, the book provides a time machine-like window into the origins of our current problems and the leveraging of America.

## We are here for you

We look forward to continue serving your investment management and financial planning needs. Please contact us if you have any questions, if you'd like to schedule an account review or learn more about our comprehensive planning services.