The Federal Reserve Board (Fed), the Dollar Mortgages, and the Economy

For those of you who read my quarterly reports you will remember that in the 4th quarter of last year and the first quarter of this year I was concerned about a correction in the market. Finally in July I said anyone who believes that he can predict the market over the short term is a fool and he and his money will soon be parted. During this quarter we saw oil prices rise, and we discovered that the subprime mortgage problem was understated. The constant pressure on the market from the pounding of the negative news of housing woes, dollar decline, etc. left us with a correction. During the month of August the Dow fell from 14,000 on July 19th to 12,845 on August 16th [i] a decline of over 9% in less than one month. After seemingly ignoring the rising price of oil, the subprime meltdown and the falling dollar for the first six months of the year these items suddenly became the headlines of the minute and the cause of market jitters. Recession became the word of the day and discussion of a soft landing left the financial news lexicon.

Ah but there was still the Fed. What would Mr. Bernanke do on Sept 18th? Most of us know that on that day the Fed lowered interest rates 1/2 of a percent- a very positive surprise. In fact the Dow rose 335 points[ii] on the 18th -quite a rise. And in fact on October 1st the Dow hit 14087 almost 500 points higher than the 13409 that it ended with on June 29th. If you did not look at your statements except on June 30th and Oct 1st you might have thought that this was just a good quarter with returns for US equities of almost 5%. It is like only looking at the end of a rollercoaster ride therefore it is not scary at all.

I wish I could say that the bad news is behind us, however as I write this the banks are showing disappointing profits (this should not be a surprise) and oil is still rising. The possibility for a recession seems to be on trader's minds again. It is now probable that our 5-year period of low market volatility may be behind us. The US economy is weakening and we may be nearly a year away from stability in the housing markets.
On the other hand the global economy is booming and that should help the US markets we are continuing to look at the global boom to help our investments. We see strength in commodities, foreign stocks and bonds and we are now adding exposure to global infrastructure investments. It seems clear that our infrastructure requires substantial investments (do not forget the bridge collapse in the Midwest) and the rest of the world is building roads, bridges, and cities at a record setting rate participating in that should be a good bet.

Enjoy the autumn colors; do not watch CNBC (unless I am on) and maybe we will see that regardless of the day-to-day gyrations you are properly invested to achieve your long-term goals.
Michael Kresh CFP®

SITUATIONS CAN VARY. THEREFORE, THE INFORMATION SHOULD BE RELIED UPON WHEN COORDINATED WITH INDIVIDUAL PROFESSIONAL ADVICE.

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[i] According to MSN Money
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