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Are We Headed For Another Bear Market?—Market Perspective From FSA
Market Review From Your Portfolio Management Team—August 5, 2011

The Dow Jones Industrial Average fell over 500 points yesterday (4.3%), its worst drop since 2008. Based on points, this drop ranks as the 9th largest one-day drop in the Dow average, going back to 1900. Of course, based on percentage, the largest one-day drop was the market crash in October 1987, when the Dow fell 508 points, which represented a 22.6% loss.

For the year, the general stock market is now in negative territory. Since its peak on April 29, the general stock market is down 11% - 12%. That level of decline certainly qualifies as an official 'correction' although it won't qualify as an outright 'bear market' until it has fallen 20% from its peak.

The reasons for the decline primarily center around concern over global economic growth, both in the U.S. and in Europe. Both areas continue to suffer from high levels of debt, which is stifling economic growth.

More importantly, though, is what does this mean for FSA clients? Let's look at where things are from 3 vantage points:

1. Big Picture (cycles)—Typically markets and economies swing from times of plenty to times of lean. We often refer to this as a staircase that advances to a landing followed by another staircase—either up or down. Following a 3-year market advance, we are now in a transition stage. These cycles go back over 100 years—the length of the cycle being the variable. History suggests that evidence of a cycle ending is stock market volatility (whether transitions move from good to bad or bad to good).

2. Stock market--The sideways stock market of the past seven months coupled with increased volatility has triggered our safety nets resulting in modest levels of stock funds in client portfolios.

3. Bond Market—While stocks have stalled and recently reversed, corporate bond prices continue to trend higher. This upward trend continues today as money is shifting from more aggressive assets to safer assets—bonds—which are the majority of your portfolio holdings. In addition, the zero interest paid at banks has encouraged investors to shift money from banks to bonds. At some point, just like the stock market, bond price trends will begin to stall or trade sideways—but this has yet to happen. Know that our safety nets are in place should bond prices reverse.

Rest assured that we are monitoring events closely and our safety nets are in place should this recent change of events become longer lasting. As always, we stand ready.

Feel free to call or email if you want to discuss your personal situation with us.

Your Portfolio Management Team