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No European Vacation

The end of April and beginning of May brought Greece back into the forefront of investor's minds as the European Union and International Monetary Fund announced a bailout package for the troubled country. The bailout sparked fears that similar packages may be necessary to help other troubled nations like Portugal and Spain. The result was a multi-day selloff of the global markets and the Euro trading at its lowest levels for the year versus the US dollar.

A key question is whether the crisis has the potential to cause a new bear market or just a reason for the markets to take profits from the almost 80% bounce off the March 2009 lows. For analysis, we have to take a look at the economic and earnings fundamentals to help draw our conclusions. First quarter U.S. corporate earnings have been strong so far with a majority of the S&P 500 companies reporting earnings that were significantly better than that of the prior year. An interesting piece of information is that cost-cutting measures are not the primary reason for earnings increases as was the case the last few quarters, but rather consumer spending has increased for five consecutive months. Another reason to be positive on the U.S. economy is that the unemployment numbers improved. On May 7th a better than expected unemployment number was issued that brought the overall unemployment rate to under 10%. On a typical day, this would have pushed the markets towards a very strong open, however, the market opened down due to the worry over the European debt crisis. My concern rises when I begin to think about the extent of the debt situation in Europe and the effect that could have on the U.S. economy. If the correct steps are not taken, the crisis could very well spread to the U.S. I believe that one of the steps that need to be taken is the European Union dropping interest rates to make money more accessible.

I remain cautiously optimistic, as I am extremely excited about the U.S. economy for now, but have a slight concern that the growth recovery may be muted because of the European situation. The current selloff that we are seeing in the market, although slightly painful, is not one that was unexpected due to the almost 80% rise that we have seen over the last year. I will be closely watching U.S. economic data for signs of a slowdown due to the European situation.

I again stress that in this ever-changing political and economic environment, sensible diversification is the key to weathering any market uncertainties.