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Mr. Markets Wild Ride

The market has been on a see-saw ride for the last few weeks and it has been causing a lot of head scratching for financial analysts on which side will prove to be the correct side. Until the last two weeks, the markets were on a steady decline approaching bear market territories with declines of close to 20% and the majority of the indexes breaching their 200 day moving averages. In the last week, however, the S&P 500 has rallied seven percent off the recent declines leading many to wonder if we may be in for a volatile ride this summer.

June and early July brought skepticism into the markets as the potential for a double dip recession began to rise. U.S. economic data began to weaken and increased fears that the U.S. economy has not entered a new growth phase. Economic data such as Existing Home Sales, New Home Sales, ICSC Weekly Same-Store Sales, Durable Goods Orders and Jobless Claims all weakened or were not up to expectations.

The weakening economic data brought out market pundits who have warned that the United States improving economic data over the past few months was a false reading. Their claim is that the improved data was due more to the various government stimulus packages and not a true measure of an improving environment. They warned that once the stimulus packages, centered around housing and autos expired, the U.S. would once again show sluggish consumer spending. The recent data, combined with the Federal Reserve commenting that the U.S. economy may again be slowing, gave investors reason enough to take some profits from the almost 80% rise in equity indexes that have been enjoyed since the market bottomed in 2009. The memory of recent sharp market declines in the last decade may contribute to the sharp declines as investors have a lower tolerance for risk.

As double dip recession talks and testing of 2009 market lows became frequent conversation on the national financial news shows, the market began an impressive rally of 7 percent within the last week. Strong earnings reports and even stronger forward earnings guidance gave investors some confidence that maybe things are not that bad in the world. Since we are at the very beginning of earnings season, I would expect the markets to move daily on the corporate earning news and forward looking statements to gain any indication of where the economy may be heading. The one factor that I believe may keep the U.S. from falling back into a recession is not consumer spending, but rather, corporate spending. U.S. corporations are sitting on record levels of cash on their balance sheets. We may see corporations start putting that cash to work which could ultimately bolster job growth and consumer spending as well.

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

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