



A registered investment advisor

**Capital Portfolio  
Advisors, Inc.**  
Financial Success - Step by Step



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### Economic Review

The 3<sup>rd</sup> quarter of 2011 saw more investor panic over continued problems with Greece's debt problems and the European Union's inability to take decisive action to straighten out their situation. Until the European Union takes strong action and resolves things there, we are likely to continue to have panicky markets from time to time.

During the second quarter, we saw a significant downturn in stocks but with an equally impressive rebound by the end of the quarter. During the 3<sup>rd</sup> quarter, we got no such rebound. The year-to-date return of the S&P 500 stock index began the 4<sup>th</sup> quarter with a double digit loss to make up by year-end to finish the year where it started.



It was exceptionally difficult to trade throughout the volatility of the 3<sup>rd</sup> quarter. I read many columns by fundamental stock analysts and active technical traders and they were all pulling their hair out it seemed. The markets gyrated rather randomly at times on little news.

The economic numbers that came out during the third quarter were generally quite positive. According to TradingEconomics.com, 2<sup>nd</sup> quarter GDP was revised up to 1.3%, corporate profits increased \$61.2b in up from \$19b in the first quarter. Inflation has crept up to 3.9% in Sept while unemployment has continued to hold steady at 9.2% since around April.

The markets were primarily driven by fear over Greece's problems spilling over into other countries and causing an even greater market panic. Greece's economy is very small and the effects of them defaulting on their debt probably isn't going to have a significant direct impact on most businesses and banking systems here in the U.S. Some German and French banks stand to be hit harder.

How the situation in Europe shakes out will have a lot to do with how the markets are going to behave for the foreseeable future.



## European Update

Since the initial writing of this newsletter in October, there have been some pretty huge developments in the European drama unfolding before us. The European Union has offered a very generous offer to the Greeks that would allow much of their debt to be written down. The world stock markets soared on this news. So far the European Union has been making small gestures toward the Greeks to help them in fairly minor ways. This was pretty major.

But then, the Greek Prime Minister dropped a bombshell by calling for a referendum on the deal. The leaders of the European Union were outraged as well as most of the investing public. The markets got chaotic in the confusion. But now it looks like the deal will go through anyway and the Greek Prime Minister may be losing his job.



The deal with Greece didn't address ways to help backstop Spanish and Italian bonds though. These countries are in debt up to their eyeballs but they are not considered insolvent – they are able to pay their debts and interest. Recently investors began dumping Italian bonds causing the interest rates to go up. This is what Italy and Spain fear the most. They can pay their debt at current levels but if they have to issue new debt at much higher interest rates, it could financially crush them.

Imagine someone with a variable rate mortgage who is scraping every penny they can to make the payments. This is Spain and Italy right now. If their variable rate mortgage goes from a comfortable 4% to 8%, they are in big trouble. If investors perceive Italian Spanish bonds to be risky, the markets will demand higher interest rates to be compensated for the additional default risk and Spain and Italy could be in big trouble.

Ben Bernanke, Fed chairman, has taken an incredible amount of heat for the bailouts. Europe generally wasn't as aggressive in stabilizing their financial systems and look where they are now.

## How Do I Handle This?

Investors have experienced incredible volatility and crazy world events since the tech bubble popped back in 2000. Some investors will let 2000 - 2011 cloud their thinking when things change down the road. Think of how difficult it must have been for investors during the Great Depression to envision the next 50 years of stock market growth.

Investing in the 1990's was downright fun, let's face it - no significant economic downturns and corporate profits just churned out. We experienced the life-changing potential of a roaring stock market and the incredible power of compounding returns over the years.

But a shrewd investor doesn't invest just for the sport of it. We all have to build and take care of our financial futures. It takes an iron will sometimes. We will never really know what returns the future financial markets



will offer us. And just looking at the last 10 years and extrapolating it into the future just doesn't work.



Too many investors are cutting back on their saving. Your future nest egg that is going to take care of you one day has to battle market volatility, inflation, possible social security benefit cuts, emergencies, and perhaps you stopping it's funding.

The sporting aspect of investing in the 1990's isn't here today. But don't lose sight of your goals and what is required for you to achieve financial freedom. For many stock market investors, maybe this means directing more savings toward things like bonds until things improve.

Investors with a long time horizon who continue to actively contribute to their stock oriented investments may do very well (and look really smart) once the world economy gets past these problems. But they also have to have patience.

As forward looking investors, we need to be looking for the turning point down the road. All the investing public needs is a sense that the worst is behind and the future is likely to be brighter than today. Once we get there, it could be very rewarding and life-changing once again.

But the Greek issue needs resolved quickly, Spain and Italy need to be stabilized and Western Civilization needs to get their national debt problems under control – not eliminated, just on track to working it down. That could be the major turning point.

### **Online Access With TradePMR**

Since the conversion of TradePMR to First Clearing as their clearing firm, there are some issues you should be aware of. First, there is a new login page for your online access. If you set up your online access before the changeover, you may need to set it up again. You can find the login page by going to my website at [www.capitalportadv.com](http://www.capitalportadv.com) and clicking on "Client Access" and then "TradePMR." The new login page should pop up. If you have any trouble logging in or have never accessed your account online, there is an 800 number on that page that you can call. The number is manned 24/7 and the person on the other end can set up your access quickly and easily. All you need is your account numbers.



Once you are in, you will notice all kinds of new things. In addition to your account status and balances, there are also all kinds of market commentaries, watch lists you can set up even with alerts and some financial planning software that you can use at no cost. Pretty cool.

Once your online access is set up, I can have your quarterly billing confirmations posted to your online account instead of mailing you one physically. I can also send you this newsletter electronically as well. And my electronic newsletter is basically the same text as the paper one, but there are more interesting graphics.

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## **Bonds Beautiful Bonds**

Here are some selected mutual fund classes, exchange traded funds (ETFs) and indexes in descending performance order through the 3<sup>rd</sup> quarter of 2011 according to Morningstar. The categories in red are negative year-to-date.

1. Long Gov't Bond
2. iShares Gold Trust (ETF)
3. Long-Term Bond
4. Inflation-Protected Bond
5. Municipal Bonds
6. Bear Market
7. Intermediate-Term Bond
8. 6 month CD Index
9. Money Market Funds
10. Bank Loan Bond
11. High Yield Bond
12. Dow Jones Industrial Avg
13. Real Estate
14. S&P 500 Index
15. NASDAQ Composite Index
16. Japan Stock
17. Large Cap Growth
18. Large Cap Value
19. Technology
20. Mid Cap Growth
21. Mid Cap Value
22. Small Cap Growth
23. Equity: Precious Metals
24. Small Cap Value
25. Europe Stock
26. Diversified Pacific/Asia
27. Natural Resources
28. Diversified Emerging Mkt
29. Latin America Stock

As always, remember that **past performance does not guarantee future results**. Also, looking at short-term performance can be quite misleading.

As always, remember that **past performance does not guarantee future results**. Also, looking at short-term performance can be quite misleading.

The asset class rankings show the effects of a broad stock market downturn. All broad stock asset classes were pulled negative. A couple bond asset classes even were barely pulled negative for the year. The current yield on high yield bonds is very attractive right now.



Gold soared as well as ultra safe U.S. Gov't bonds just like it has in many market panics of the recent past.

There is a pretty significant gap between the 6 mth CD and Intermediate Bonds.

As I've said many times before, a seasoned investor knows that today's stars can be tomorrow's dogs and vice versa. They are also realizing that a lot of good stocks are trading at really low prices.

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Enjoy the Autumn!

Dennis



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