

## Markets Slip as Volatile Month Ends

Financial markets lost ground in May, and the Dow Industrial Average (an unmanaged index of 30 widely held stocks) on May 26 closed below the 10,000 level for the first time since early February. Triple-digit trading-day swings were common. Volatility – never far below the surface even as markets trended up in recent months – returned with a vengeance.

Global concerns, from an escalating war of words on the Korean peninsula to debt problems in Europe and the possible environmental, economic and energy industry consequences of the huge BP oil spill in the Gulf of Mexico, fueled investor worries.

For the record, the Dow closed the month at 10,136.63, down 8.0% from its April close. The NASDAQ Composite (an unmanaged index of all common stocks listed on the NASDAQ National Stock Market) fell to 2,257.04 for a loss 8.3% for the month. The S&P 500 (an unmanaged index of 500 widely held stocks) finished at 1,089.41, down 8.2% during May. All three indices reached their highs for the year in April.

U.S. data continues to show consistency with the idea of a slow, moderate economic recovery. The Reuters/University of Michigan consumer sentiment index rose in late May to 73.6, up from 72.2 in April (the long-term average for this index is approximately 87, so, clearly, we're not there yet). Disposable personal income rose faster than spending in April, the Commerce Department estimated. Housing data was generally positive, with sales of existing homes up 7.6% in April (before the expiration of the tax-credit program). Jobless claims during the month were relatively flat, which is consistent, said many economists, with expectations during a slow, moderate recovery. First-quarter gross domestic product growth was revised to an annual rate of 3%, down slightly from earlier estimates.

During the month, investors seemed driven more by concerns about the economic turmoil roiling the European Union, European markets and the euro, whose descent in dollar value took it from an April 30 close of nearly \$1.33 to approximately \$1.23 as May trading drew to a close. And fears connected with economic woes in Greece, Portugal, Spain, Italy and Ireland appeared to be linked to that astonishing afternoon on May 6, when the major indices fell like stones – the Dow was down nearly 1,000 points – only to recover before trading ended to more modest losses in the 3% range. Possible trader errors and technological glitches may have contributed to the drama of that afternoon. It is still being investigated. A few days later the 16 euro zone finance ministers announced a €750 billion (\$928 billion) rescue package, a move that temporarily buoyed investor attitudes.

As they endured all this uncertainty, the markets dropped into “correction” territory (losing 10% from previous highs) during May. Such situations sometimes lead to new investment opportunities. If you'd like to investigate, I'll be happy to discuss them with you. Just give me a call.

Investing involves risk, and investors may incur a profit or a loss. Past performance is not an indication of future results. Investors cannot invest directly in an index.