

September 2, 2011

Market Correction Follow Up

In our previous letter we expressed cautious optimism that the bottom of this market correction had been reached near the 1120 level for the S&P 500. This closing price has been successfully re-tested twice since it was first hit August 8th. We say successfully retested because not only did the low hold, but the closing price was very slightly higher on each re-test.

The market may dip for another re-test in coming weeks (bottoming is a process, not an event), so please don't let that surprise you should it happen. However, we have seen several positive signs that help us feel a little more optimistic both that our economy should continue to grow slowly, rather than slip back into recession, and that the market may turn upward in response. A few include:

- **Market volatility has declined** since the extremes we experienced a few weeks ago.
- Even on days when the markets have been negative, **selling pressure has lessened**. Most investors who felt it necessary to sell have already done so.
- The previous weeks of selling created an oversold environment for many stocks. In fact, the **selling since early July has left the valuation of stocks relative to Treasury bonds at their cheapest levels since the bottom of the Great Recession, March 2009ⁱ**. Buyers have begun stepping in to pick up investments at attractive prices. We'd like to see the buying increase.
- **Economic data that has been coming in has been okay**. Not great, but not bad either. Personal savings and spending by consumers was fairly positive, retail sales has been holding up and other recent data has *not* indicated that the economy is slipping more towards recession.
- **Bank lending has recently increased**. Lack of lending by banks has been one of the main concerns of the Federal Reserve and a primary reason for initiating QE2 last August. After lending fell 9.5% in 2009, 5.8% in 2010 and at a 1.4% annual rate for the first half of 2011, it has now increased the past few months and has registered an annualized growth rate of 6.9%ⁱⁱ. In response to a recent Fed survey, senior loan officers at banks across the country indicated an easing of credit terms and standards on all major loans other than those secured by real estate. This is a step in the right direction, especially for small business owners who wish to expand their businesses.
- **We have also felt a slight positive shift in market behavior** towards rallying in response to good news and taking bad news a little more in stride, without extreme negative reaction.

Next week President Obama has said he is going to unveil some new ideas towards supporting the housing market and stimulating the economy. We will wait and see what this announcement entails and whether Americans respond in a positive, hopeful way.

We'll continue watching all developments, but are hoping that as we enter the season of fall the markets may lift. If though, the market is unable to hold support near the 1100 level upon a re-test we will become more concerned and would re-evaluate conditions at that time.

Before we conclude, we'd like to share something we read this week. **A landmark Harvard study of investment habits found that investors who consumed no financial news earned better returns than investors who were fed a constant stream** of it. And the results were even more dramatic with regard to volatile stocks: In those cases, **investors who learned nothing about their stock earned more than twice as much money as those whose trades were influenced by the media**ⁱⁱⁱ. The reason we bring this up is that the constant stream of information by the media does influence how consumers and investors feel and act. One of our concerns is that the negative flow of news on television and in the newspaper could result in a self-fulfilling prophecy. In fact, the Consumer Board reported Tuesday, that in August its consumer-confidence index fell to the lowest level since April 2009. The debt ceiling debate, S&P downgrade of the U.S. credit rating, and streaming negative news distributed by the media likely contributed to the decline in confidence. If we are told often enough that the economy may slip back into recession, consumers and investors may in fact take action or inaction that has the result of causing our economy to, in fact, slip back into recession.

We will continue watching all developments carefully. Please let us know if we can do anything to help you, a friend or relative regarding investments and long-term financial plans.

Eric W. Hilliard
Certified Financial Planner™
Branch Manager

Richard A. Hilliard
Certified Financial Planner™

Helping families manage, preserve, and distribute wealth since 1975.

Raymond James Financial Services, Inc.
Member FINRA/SIPC
5720-201 Six Forks Road
Raleigh, NC 27609
919-846-7268
www.raymondjames.com/hilliard/

To opt out of receiving future e-mails from us, please reply to this e-mail with the word "Unsubscribe" in the subject line. The information contained within this commercial e-mail has been obtained from sources considered reliable, but we do not guarantee the foregoing material is accurate or complete.

Raymond James Financial Services does not accept orders and/or instructions regarding your account by e-mail, voice-mail, fax or any alternate method. Transactional details do not supersede normal trade confirmations or statements. E-mail sent through the Internet is not secure or confidential. Raymond James Financial Services reserves the right to monitor all e-mail. Any information provided in this e-mail has been prepared from sources believed to be reliable, but is not guaranteed by Raymond James Financial and is not a complete summary or statement of all available data necessary for making an investment decision. Any information provided is for informational purposes only and does not

constitute a recommendation. Raymond James Financial Services and its employees may own options, rights or warrants to purchase any of the securities mentioned in e-mail. This e-mail is intended only for the person or entity to which it is addressed and may contain confidential and/or privileged material. Any review, retransmission, dissemination or other use of, or taking of any action in reliance upon, this information by persons or entities other than the intended recipient is prohibited. If you received this message in error, please contact the sender immediately and delete the material from your computer.

ⁱ *Orlando's Outlook: Crisis of Confidence* by Phil Orlando, Federated, August 26, 2011

ⁱⁱ *Economic Insights: Banks Lending at Last* by Milton Ezrazi, Lord Abbett, August 29, 2011

ⁱⁱⁱ Dorsey Wright & Associates, August 29, 2011