

# Market Update

Individual solutions from independent advisors

JEFF BRAYTON, FINANCIAL ADVISOR

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October 2011

## Upcoming Events

### MANAGING VOLATILITY AND LIMITING RISK

STEVE'S BACKROOM  
24317 Jefferson Avenue  
St. Clair Shores, MI  
(Between 9 & 10 Mile Rd.)

WEDNESDAY, OCTOBER 12<sup>TH</sup>

6 – 7:30 PM

**Dinner will be provided**

*\*Please respond promptly – seating is very limited.*

Join me and our special guest speaker, Matt Saunders, Product Manager of Columbia Absolute Return Funds. Topics include:

- Are current elevated levels of volatility here to stay?
- Are there strategies to help position my portfolio if we go back into recession?
- What are absolute return strategies and should they be part of every portfolio?

Recent market experience has investors changing their expectations and looking for ways to limit their exposure to market downturns. We will focus on strategies which are designed to offer investors a way to manage risk.

Co-Hosted and Presented by: Jeff Brayton, Financial Advisor  
Raymond James Financial Services, Inc.

Jay Fradenburg  
Regional Vice President  
Columbia Management

Please call Rochelle for reservations @ 586-498-0788 or respond to [rochelle.probst@raymondjames.com](mailto:rochelle.probst@raymondjames.com) no later than **October 10<sup>th</sup>**

*Securities offered through Raymond James Financial Services, Inc. Member FINRA/SIPC*



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## Financial and Investment Planning

“You can always count on Americans to do the right thing – after they’ve tried everything else.”

Winston Churchill

Investors are clearly fearful and angry as we enter the final quarter of 2011. And who could blame them? The August downgrade of the United States credit rating by Standard & Poors from AAA to AA+ has led to increased volatility and several rounds of panic selling in equity markets over the past sixty days.

The unfortunate part, at least as I see it, is that this recent market decline could have been avoided had our politicians been able to display even a small level of intelligence in confronting our country’s debt issue. The sad reality is that our political process has slipped from gridlock to nearly complete dysfunction.

The true hard evidence that the downgrade was more about politics than it was our nation’s ability to pay its bills came in the strong rally in U.S. Treasuries immediately after the news.

In both written and verbal commentary after the downgrade, Standard & Poor’s representatives indicated that the downgrade of the US’s credit rating had more to do with a seemingly broken political process than it did financial fundamentals. One part of the specific language of the downgrade read as follows: “More broadly, the downgrade reflects our view that the effectiveness, stability and predictability of American policymaking and political institutions have weakened at a time of ongoing fiscal and economic challenges to a degree more than we envisioned when we assigned a negative outlook to the rating on April 18, 2011.” (Source: Standard & Poors). I’m not sure how much more blunt and direct they could have been without just calling our politicians ineffective fools.

The true hard evidence that the downgrade was more about politics than it was our nation’s ability to pay its bills came in the strong rally in U.S. Treasuries immediately after the news. If investors and institutions had truly been worried about the United States ability to meet its obligations (i.e., interest payments) we would have seen massive selling of U.S. Treasuries and a corresponding increase in yields; instead, there was buying and a lowering of yields. Thus, it appears that despite all of our problems, U.S. Treasuries remain the safe haven for investors around the world in times

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## Financial and Investment Planning Continued

As I have written several times in the past, large outflows from equity mutual funds have historically been strong indicators that markets are nearing a bottom.

of panic and fear.

Meanwhile, despite the ongoing strength of the companies that make up our real economic system – companies like Apple Computer, Proctor and Gamble and PepsiCo – investors have been selling stocks at record rates. According to data provider EPFR Global, investors worldwide have pulled well over \$100 billion out of domestic stock funds over the past four months. This rate of withdrawal matches the worst four months of the financial crisis of 2008.

As I have written several times in the past, large outflows from equity mutual funds have historically been strong indicators that markets are nearing a bottom. This was certainly the case in March of 2009 and I would not be at all surprised if the market rallies in the late part of this year. Of course we are never sure where markets are headed in the short run and there is always the risk of socio-political events pushing the market lower.

The volatility in equity markets does not appear ready to end any time soon and we are continuing to look for tools and information to help our clients through this period. The workshop with guest speaker Matt Saunders of the Columbia funds we are hosting on October 12<sup>th</sup> is one such example. Please see details of this event on page 1.

If you want a true contrarian view in the midst of the fear and turmoil of the past couple of months, look no further than an 8/29/11 Economic Outlook from Brian Wesbury, Chief Economist of First Trust Advisors. Mr. Wesbury used a capitalized profits model to value stocks, which is a mathematic formula that divides corporate profits by the 10 year treasury yield. The result, and I hope you are sitting down, is that stocks appear to be undervalued by as much as 65% currently. Even if this is correct, it could take many years for these valuations to be realized but this is at least one indicator that better times may be ahead.

Another optimistic voice in the wilderness belongs to Chris Davis, Portfolio Manager of the

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## Financial and Investment Planning Continued

Davis Funds. In a recent Update Report to his funds shareholders, Mr. Davis reiterates his belief that despite, or even because of, the pervasive sense of gloom and negativity, the stock market as a whole should produce better returns in the next decade.

Chris Davis provides written commentary to his shareholders that is as open and honest as anything I read in our industry. He routinely includes large sections in every report on the mistakes he and his team made in the previous quarter and what was learned from their mistakes. Such humility is highly unusual in this industry of self-professed market geniuses and huge egos. His most recent report concluded with a paragraph clarifying the overall goal of his reports to shareholders and it so closely describes my own intent for our client newsletter, that I'm including it word for word. Please read it carefully because it is so well written that the only change I would make is to substitute the word "clients" for his word, "shareholders":

"One final goal of these reports is to demystify the fundamentals of investing and particularly highlight areas of the capital markets in which we think investors are behaving irrationally. We do so not to cast stones at others but because we recognize investor returns come from both the performance of the underlying asset they own as well as the timing of their decision to buy or sell that asset. In most cases, this timing decision is costly because of the persistent tendency of investors to want to do today what they wish they had done yesterday. As a result, investors buy what has already gone up and lose interest in what has already gone down. By reminding our shareholders that the fundamental laws of economics and the basic tenets of common sense are timeless, we hope to make an indirect contribution to their returns by giving them data that will help them stay the course when times are uncertain and resist the tendency to get caught up in the fads and manias being pushed by promoters and pundits."

The S&P 500 is an unmanaged index of 500 widely held stocks that's generally considered representative of the U.S. stock market. The NASDAQ composite is an unmanaged index of securities traded on the NASDAQ system. The Dow Jones Industrial Average (DJIA) represents 30 major industrial companies. The Russell 2000 index is an unmanaged index of small cap companies which generally involves greater risks.

Bond prices and yields will fluctuate with market conditions and may be worth more or less upon redemption. When suitable, high-yield bonds should only represent a modest portion of a portfolio. Treasuries are among the most secure investments when held to maturity

The information contained in this report does not purport to be a complete description of the securities, markets, or developments referred to in this material. The information has been obtained from sources considered to be reliable, but we do not guarantee that the foregoing material is accurate or complete. Any opinions are those of Jeffrey Brayton and not necessarily those of RJFS or Raymond James. Expressions of opinions are as of this date and are subject to change without notice. This information is not intended as a solicitation or an offer to buy or sell any security referred to herein.

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Stocks finished broadly lower on recession fears and bonds increased in a flight to safety.

## Major Stock Indexes

(As of 9/30/11)\*

SOURCE: THE WALL STREET JOURNAL

S&P 500 Index	-	10.0%
Dow Jones Industrials	-	5.7%
NASDAQ Composite	-	9.0%
Dow Jones World Index (ex U.S.)	-	18.6%
Russell 2000 (Small Cap Index)	-	17.8%
S & P Mid-Cap 400	-	13.9%

## Major Bond Indexes

U.S. Treasury –Long Term	+	18.4%
U.S. Treasury – Intermediate	+	3.2%
Barclays/U.S. Aggregate	+	6.5%
U.S. Corporate—Barclays	+	6.0%

- Inclusion of these indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results.

## Office and Personal

In our last newsletter I mentioned that Dawn Zifilippo, my Office Manager for the past seven years, was leaving to pursue her dream of owning her own business. I interviewed several well qualified candidates to replace Dawn, and I feel I made the correct decision in hiring Pat Johnson.

Pat had been staying at home to raise her son Tim for the past twelve years and recently worked part-time at another Raymond James Financial Services office. Her employment background also includes 20 years in a local bank trust department where she worked her way up to Assistant Vice President. Pat lives close by in Grosse Pointe with Jeff, her husband of over 30 years, and their son Tim.

Pat's formal title here is Client Service Associate and she will be handling all client service issues. I am asking our clients to please contact Pat for anything not involving their investments or financial planning

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## Office and Personal Continued

questions or concerns. Pat is well aware of the emphasis our office, and Raymond James Financial as a firm, places on client services.

I have also just recently added Rochelle Probst to our team as our Client Communication and Marketing Associate. Rochelle is a recent Baker College graduate who spent time as an intern in our office a couple of years ago. She will be working with me to make sure our clients are receiving important and timely information to help them understand their investments and the services we provide. Perhaps most importantly, Rochelle will be helping to make sure we keep up with the most current technology available for communication with our existing and prospective clients. Rochelle also happens to be quite busy raising four children with her husband Rob.

I'm confident that having Pat and Rochelle on board will allow me to continue to focus on the portfolio management and planning work that our clients pay me to do. Given the increasing volatility and financial challenges facing investors, it will be more important than ever for me to spend my time advising and guiding our clients through this environment.

Finally, as many of our clients and friends know, I tend to agree with the late Tim Russert's quote, "Baseball! If there's a more beautiful word in the English language, I have yet to hear it." Needless to say, I'm thrilled to see our own Detroit Tigers playing in this year's post season. And frankly, no matter the outcome from this point forward, it has been a great season of baseball at Comerica Park. If you are a fan, I hope you are enjoying the ride – I know I am.

Thank you for taking the time to read our newsletter and for your continued confidence and trust.

Warm Regards,

*Jeff Brayton*

Jeff Brayton, MBA, Financial Advisor/Investment Management Consultant