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It seems that almost daily we are confronted with another item of concern relating to the future outlook of the domestic equity markets. A quick scan of the Wall Street Journal headline's just this week produced many a signal of 'trouble ahead': Cooper prices declined sharply, the "twist" operation performed by the Fed, China's economy slowing down, yield curve flattening, unemployment figures revised upward, Government shutdown imminent.

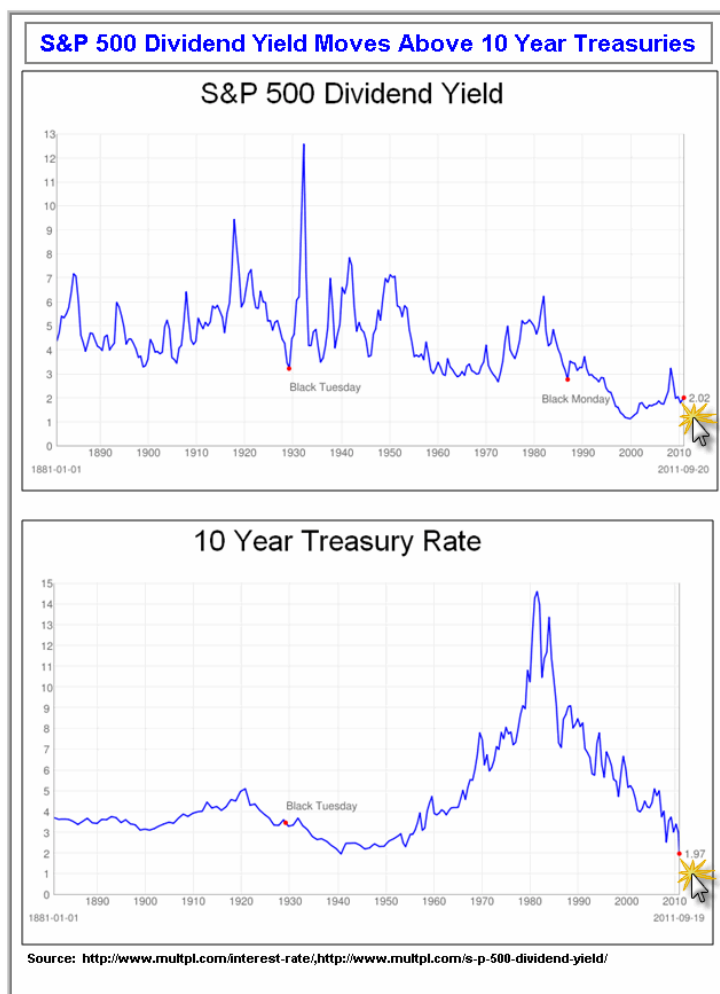
These certainly make for dire headlines, but what is forgotten is that they all have one thing in common, none are new news. It is these ongoing issues that have driven the Volatility Index (VIX as discussed last month) above the level normally associated with more healthy economic conditions; as there is an overriding concern around lack of economic resolve. These are nonetheless concerning figures and continue to feed the volatility machine that has so many investors on edge. We feel it our responsibility, to the best of our ability, to separate the wheat from chaff. Here are our thoughts around some of these topics:

- 1.) Double Dip Recession & Europe: The signs continue to point to a slowing of economic growth, but at this point not a recession. We are however very mindful of the interconnection of global economies just as one would protect against one domino causing others to topple. Europe is still the big global risk and it seems the equity markets are trading almost lock step with the latest news from the European region. Contagion risk (i.e. another Lehman Brothers, 2008/2009 event) seems limited, especially as mark-to-market was discontinued in March of 2009 (not so oddly, that was the bottom of the market as well). Europe and the U.S. are operated in fundamentally different economic and social manners and the two are not well correlated. To be sure, an economic collapse in Europe would have negative implications in the U.S. and across the globe, but many of the seismic concerns are currently being addressed.
- 2.) Corporate Earnings: This is of larger concern currently than the risk of another credit crisis sparked by the fiscal conundrum in Europe. While many companies have stood by their projections for earnings into 2012, many others have warned of the *potential* for slower growth. Due to how markets factor future earnings into current prices, this has created a headwind for the stock indices and is in part attributable to the recent decline we have witnessed. We feel the truly important data point is that earnings are in fact still growing and too much pessimism may have found its way into current equity prices.
- 3.) Substantial downside to equity prices: Predicting what the future looks like is a guessing game in which we would prefer not to engage. We remain optimistic about the future based on historical economic similarities (see next bullet point), the record levels of corporate profitability, huge amounts of cash on balance sheets across the globe, and the increased dividend payout rates offered by many a company. Technical analysts (chartists) and many talking heads suggest that the market will trade in the range of 1,000 to 1,200 on the S&P 500

for the foreseeable future; with more downside risk than upside opportunity. As we have said many a time, rarely do these folks get it right and 'Mr. Market' has a strange way of proving everyone wrong.

4.) From The Bespoke Group, a highly respected research firm:

It was brought to our attention today that the dividend yield on the S&P 500 now exceeds the yield on the 10-year Treasury notes. Sam Stovall, Chief Investment Strategist from Standard & Poor's, cites in his "Stovall's Sector Watch" from The Outlook that this doesn't happen very often. In fact, since 1953, there have only been 20 occurrences when the S&P 500 yielded more than T-Notes. The current indicated dividend yield for the S&P 500 is 2.13%, according to Stovall. He further goes on to say, that the following 12 months, after this occurrence, the S&P 500 rose by an average of +20%.



5.) Stocks still look better than bonds: With the recent execution of "Operation Twist" by the Fed, interest rates have hit new, historic lows. To us it seems prudent, with respect to your risk tolerance and overall asset allocation, to position capital as to receive dividend income by high quality companies in lieu of fixed coupon payments with little

to no chance of reacting to future inflation; not to mention favorable capital gains rates vs. ordinary income of bond interest. The downside to this 'strategy' is participation in volatility. Dividends have been a substantial portion of total return experienced by investors over time. In effect, investors agreeing with this philosophy are being paid, and rewarded, to wait out the storm; albeit with a pounding headache caused by volatility.

Of most benefit to long-term investors is to rebalance portfolios, make tactical portfolio changes that align with the current global outlook, and let compounding and dividends work their wealth building abilities. We trust that our ongoing dialogue and regular communication offer comfort to you during turbulent market environments. We thank you once again for your continued trust.

Respectfully,



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Here's an interesting graph showing how emotions generally correspond with business and economic cycles. Opportunity is greatest, historically, when we feel the worst. It is my opinion we are somewhere near the capitulation and despondency area.



Disclosures:

There is no guarantee that any strategy or recommendation will ultimately become successful or profitable, nor protect against loss. Past performance is not indicative of future results. There is no assurance any of the trends mentioned above will continue in the future. Investing involves risk and investors may incur a profit or a loss, including the loss of principal.

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Specific sector investments, where companies engage in business related to a particular industry, like energy and technology, are subject to fierce competition, the possibility of their products and services being subject to rapid obsolescence and limited diversification.

Bond prices and yields are subject to change based upon market conditions and availability. If bonds are sold prior to maturity, you may receive more or less than your initial investment. Holding bonds to term allows redemption at par value. There is an inverse relationship between interest rate movements and bond prices. Generally, when interest rates rise, bond prices fall and when interest rates fall, bond prices rise.

Dividends are not guaranteed and must be authorized by the company's board of directors.

The S&P 500 is an unmanaged index of 500 widely held stocks that's generally considered representative of the U.S. stock market. Investors cannot invest directly in an index.