Executive Economic Outlook And Summary

MULTOP FINANCIAL
Private Wealth Management & Tax Expertise

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Yes, we are in a bull market, but there have been significant economic factors causing Multop Financial to question the short-term sustainability of this stronger trend.

We mentioned in our last Economic Outlook (Fall/Winter 2010-2011) that if the tax cuts were upheld (which they were), we may look to a gradual improvement going into 2011-2012. Our prediction was for the Dow Industrial Average to oscillate between 10,000 and 12,000. In fact, its range was between 11,000 and 13,000. Even though the stock market did better than what we predicted it also brings us closer to a "bull market" correction as investors begin to take their profits.

The primary trend remains bullish according to the Dow Theory Forecast. Although the market has performed well this year (already up approximately 8% year to date), we believe there is an enhanced risk of a correction in the next several months which may pull down returns in the short term. U.S. stocks have remained amazingly resilient despite a significant amount of global uncertainty and many domestic troubles. This is largely due to the Federal Reserve's Quantitative Easing program (continued stimulus of our economy) which is scheduled to end June 30th 2011. At this point the bullish argument for stocks will hinge on the expectations of continued robust earnings.

- Housing starts are near a two year low. Building permits are at a record low. Since August, home prices have declined through February 2011 and have reached levels barely above recession lows in April 2009. The Case-Schiller index was down 3.3% from February 2010. This puts pressure on the fed to keep rates low as to not further hinder the housing market.
- Although the Fed stated it anticipates the jump in energy and food prices to be temporary, many economists are worried that the U.S. may be headed for a surge in inflation. Multop Financial believes we are already experiencing an inflationary environment. Consumers are reminded of this whenever we go to the gas pump or purchase groceries at our local markets.
- Current forecasts of GDP are being revised downward indicating some level of contraction in our economy.
- Let's face it; our current level of government spending is unsustainable. This was most recently brought to light by Standard & Poor's (S&P) announcement on April 18th 2011 that its outlook on the AAA rating of the U.S. Treasury bonds was cut from "stable" to "negative," saying the path from large fiscal deficits and mounting government debt remains unclear. This would jeopardize the U.S. dollar's value on the world market causing interest rates and inflation to increase.
- While the Volatility Index (VIX) is hovering at the low end of its normal range, it creates concern that at some point it will revert back to its longer term average. Increased volatility in the markets generally favors downward stock prices.
- According to Government reports, unemployment is currently at 9%, down from the 9.6% we reported in our last Economic Outlook. The accuracy of the 9% number is uncertain due to the Government's inability to monitor the unemployed people who are no longer reporting in. Analysts believe the rate is higher than 9% but we have no way of knowing how much higher it might be.

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What does all this mean? In the short term, at Multop Financial we believe investors should emphasize risk management and capital preservation. In the longer range, we believe there should be positioning of portfolios to address the very real possibility of higher inflation (we believe there will be higher interest rates over the longer term as the effects of food, energy and transportation prices increase and begin to ripple through the other sectors of our economy).

Are you asking yourself how this translates to your portfolio? By implementing our durable portfolio philosophy through the use of globally balanced equities and non-stock market alternative investments, (i.e. Non-traded commercial REIT's, natural resources exposure and commodity & managed futures funds) investors should achieve an appropriate level of diversification to navigate this market. For our clients, we are constantly monitoring your investment positions and have scheduled our annual review appointments over the next few months to discuss any changes or rebalancing you may need. If you are not a client of Multop Financial, we invite you to contact our office for a complimentary review of your current investments. We can help you become properly allocated for today's market.

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