Executive Economic Outlook And Summary

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It is Multop Financial's opinion that the US Economy is in a "Conservative Recovery", meaning that while we expect net economic growth overall, it will be limited due to several factors.

Currently, the biggest factor dragging down our economic growth is government. Government has become its own worst enemy. According to the US Department of Commerce's Bureau of Economic Analysis, consumer spending grew at a 2.9% rate in the first Quarter of 2012 and government spending (state and federal) pulled back by 5.6%. Before anyone starts thinking that Washington has suddenly become more responsible, it should be noted that the bulk of federal cuts were on defense spending which plunged 8.1%[1].

The second factor is unemployment. Don't be fooled by the recent unemployment figures. In April, unemployment dropped from 8.2% to 8.1%; however according to the US Bureau of Labor Statistics, the reason for the decline was primarily because 342,000 people completely stopped looking for work (i.e. retired or went on welfare programs)[2]. This is troubling because it shows our job market is not recovering in a manner that would produce real, long-term economic growth. All in all, there are 572,000 fewer people working in the US than there were in January of 2009.

The Third factor is housing. Housing has been the largest drag on our economy since 2007. Prices continue to fall nationally despite historically low interest rates and failed attempts by our government and the Federal Reserve to intervene in this matter. Simply put, people are not enthusiastic about purchasing a new home.

On a brighter note, corporate profits have been better than expected in the first quarter; however it has failed to generate enthusiasm due to European concerns and the effects they may have on the US economy.

Here are a few economic figures we believe are worth taking note of:

- The S&P/Case-Shiller index fell 0.8% in February 2012 and is at its lowest level since October 2002. The decline may be due to the typical pattern of diminished interest during the winter and heightened interest in housing during the spring and summer, as prices rose 0.2% on a seasonally adjusted basis.
- The Consumer Confidence Index, which had declined slightly in March, was virtually unchanged in April. The Index now stands at 69.2, down slightly from 69.5 in March. The Expectations Index declined to 81.1 from 82.5, while the Present Situation Index improved to 51.4 from 49.9 last month.
- The Institute for Supply Management reported that manufacturing activity expanded in March for the 32nd consecutive month, and the overall economy grew for the 34th consecutive month. The Production Index increased 3% points from February's reading of 55.3% to 58.3% and the Employment Index increased 2.9% points to 56.1%.
- After six months of gains, the Small-Business Optimism Index fell by almost 2 points in March, settling at 92.5. After a promising start to the year, nine of ten index components dropped last month, most notably hiring plans and expected real sales growth each taking a significant dive, in spite of owners reporting the largest increase in new jobs per firm in a year.
- Consumer spending increased the most as households shook off a steady rise in gasoline prices. The Commerce Department said consumer spending rose 0.8% in February as demand for long-lasting goods, such as automobiles, rose sharply. A 0.2% rise in income helped cover some of the increase in spending, but consumers also saved less. The saving rate, the amount of disposable income that was put away, dropped to 3.7%, the lowest rate since August 2009.

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- The national unemployment rate dropped slightly in March 2012, to 8.2%, according to figures released by the Bureau of Labor Statistics on Friday, April 6, 2012. That's the lowest unemployment rate since February 2009 and down 0.6% from March 2011.
- U.S. real gross domestic product increased at an annual rate of 3% in the fourth quarter of 2011. In the third quarter, real GDP increased 1.8%.
- The S&P 500 had its biggest first-quarter advance in 14 years. Stronger employment and consumer confidence were no doubt a big part of the stock market's success. The S&P 500 finished the quarter up 12%, while the Nasdaq surged 19% over the quarter (Nasdaq's biggest increase since 1991).
- The CBOE Volatility Index currently sits at 18.51, which is well below its long-term average range of 20.0-30.0. Whether equity market volatility can remain compressed is something to keep an eye on in the second quarter.

Specifically addressing European Union issues; The Euro is in a dire situation. Many prominent investors including Warren Buffet seriously doubt the long term stability of the Euro as a currency unless major changes are made[3]. So far the Greek government has made promises of financial reform, but has failed to enact any of the proposed cuts. France recently elected a Socialist Party President whose election pledge was that he would not comply with financial austerity measures and instead tax top earning citizens at 75%. People have already started leaving France and moving to countries with more favorable business environments. The exact timeframe of a possible collapse of the Euro is difficult to predict, but it appears likely that it will fail unless unprecedented changes are made. As of right now, it also appears likely Greece will be kicked out of the Euro at some point. It's disappointing to see such a failure unravel before us, but as Americans we have the opportunity to learn from this situation and not make the same economic mistakes as our European counterparts. Many have, at times, looked to Europe as a leader in social matters; however without proper fiscal stability, extensive social safety-nets ultimately result in the unintended demise of well-intending societies.

What does this mean for your investments? Because the Dow Theory currently suggests we have moved from a "Confirmed Bull Market" to an "Unconfirmed Bull Market" Multop Financial recommends continuing to maintain positions in large mega-cap stocks which pay dividends and limit your exposure to mid & long-term bonds due to extended low interest rates. European investments should be minimized for now because of the reasons stated above. Other international investments (non-European) may be appropriate depending on individual investment goals, risk tolerance & time horizons. Investors should especially focus on reducing volatility in their investment portfolios to minimize the negative impact that a sudden shock from Europe could have on our stock market. Diversifying investment portfolios into stock market alternative funds may provide opportunities for stability in an otherwise uncertain market.

Sources:

[1] http://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm

[2] http://www.bls.gov/news.release/empsit.t01.htm

[3] http://www.cnbc.com/id/45382630/Buffett_Doubts_Euro_Survival_Says_System_Is_Flawed

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