Executive Economic Outlook And Summary

Fall/Winter 2012/2013

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This edition of Multop Financial's Economic Outlook comes intentionally on the heels of this year's Presidential Election. Because the candidates had dramatically opposing views of how to lead the country, we felt it prudent to wait until after the election to provide our prospective. Famous investor, Sir John Templeton once said, "Bull markets are born on pessimism, grow on skepticism, mature on optimism, and die on euphoria." Multop Financial is forecasting a mild bull market with gaining momentum. One should note that every bull market has to climb a wall of worry.

Now that the election is over, our expectation is for President Obama to continue on the same economic path he has pursued for past four years. Unfortunately, this path has created a substantial amount of uncertainty for the business community in America, and as of now he has not indicated he intends to implement anything substantially different. What remains to be seen is if business owners & CEO's are willing to overlook such uncertainty and be more willing to invest their capital which has been sitting idle for the past several years. As an example, Steve Wynn, business mogul and long time, self-proclaimed democrat, has repeatedly made statements in which he cites President Obama's policies as the primary reason he and other business owners in America are afraid to spend their capital. On June 18, 2011 Wynn made a statement on a quarterly earnings conference call that we believe to be the thoughts of many business leaders. He said, "I'm telling you that the business community in this country is frightened to death of the weird political philosophy of the President of the United States." At Multop Financial we believe the US economy will grow, however, it is unclear at what pace given the lack of incentive business owners have been given during the President's first term.

We are also concerned about the potential effects of the "Fiscal Cliff" which is approaching at the end of 2012. *For detailed commentary about the"Fiscal Cliff" please visit www.multop.com/articles*

While we are in a bull market domestically, global markets will likely remain choppy due to elevated levels of global political uncertainty; namely Europe whose problems will likely continue to dominate the international fiscal policy. Until this is fully addressed, we are cautioning investors to treat European investments as "higher-risk" and expect to see elevated levels of volatility in those markets.

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

- **S&P/Case-Shiller** reported late September that home prices are beginning to show signs of stabilization. The index rose 1.6% and was the third consecutive month of positive movement.
- The Conference Board **Consumer Confidence Index®**, which had declined slightly in August, improved in September. The Index now stands at 70.3, up from 61.3 in August. The Expectations Index increased to 83.7 from 71.1, while the Present Situation Index rose to 50.2 from 46.5 in August.
- The Institute for **Supply Management Index** registered at 49.5%, indicating that manufacturing activity is contracting for the second time since May of 2009. Generally a figure above 51.2% indicates growth.
- The small business community continues to show low expectations and pessimism as the **NFIB Small Business Optimism Index** fell to 92.8. This is the second lowest number reported in 2012.
- **Consumer spending** increased 0.5%, which was mostly due to increased gasoline prices. If gas prices are excluded, the figure only rose by 0.1%. Factoring inflation into this number household incomes actually fell by 0.3% - the poorest performance since November 2011. Increases in prices and slower growth in pay has forced people to save less.

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- The **national unemployment rate** dropped unexpectedly to 7.8% in September; however that figure is expected to be revised upward as one state (which has not been named) did not report its figures on time and thus caused the figure to underreport actual unemployment.
- **U.S. real Gross Domestic Product** increased at an annual rate of 1.3% in the second quarter of 2012. In the first quarter, real GDP increased 2.0% percent.
- U.S. stocks rallied sharply in the third quarter against the backdrop of weakening global economic activity. The **S&P 500 Index** rose more than 6%, driven largely by the latest bond-buying programs by the U.S. Federal Reserve and the European Central Bank, as well as impending stimulus from the Chinese government. The U.S. economy has continued its moderate growth pace, thanks to an improvement in housing and a recent report that the manufacturing sector grew for the first time in four months, buoyed by an increase in new orders.
- The **CBOE Volatility Index** currently sits at 15.47, which is well below its long-term average range of 20.0-30.0. With the looming "Fiscal Cliff" and the ongoing Euro debt crisis, we would anticipate this figure to rise towards the end of 2012.

What does this mean for your investments? Because the Dow Theory currently suggests we are in an "Unconfirmed Bull Market," it is our opinion that equities remain the most compelling asset class. While interest rates are likely to remain low for the near-term, inflation is still a risk; one that equities may provide a hedge against. We also recommend limiting your exposure to mid & long-term bonds for the foreseeable future. European investments are not compelling due to the fiscal uncertainty still plaguing the EU and its surrounding countries. Other international investments (non-European) may be appropriate depending on individual investment goals, risk tolerance & time horizons. Volatility will likely rise towards the end of 2012, and depending on the outcome of the Fiscal Cliff, may continue well into 2013 if it is not properly managed. Diversifying investment portfolios into stock market alternative funds may minimize such volatility.

There is some limited optimism under a second term Obama administration. A 2003 study published in the Journal of Finance found that since 1928 stocks have averaged 9% higher returns with Democrats in office. The 2012 Democratic election promises a continuation of spend-to-spun growth policies: "We can't just cut our way to prosperity. We must out-educate, out innovate, and out-build the world."[1] Unfortunately, for small businesses, uncertainty in areas such as taxes and government spending will still prevail.

Sources:

[1] 2012 Democratic National Platform
"Moving America Forward"
September 4, 2012

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