

Fall 2010

“Just three months after the stock market underwent the so-called Death Cross, under which the major indexes’ 50-day moving average slips below the 200-day average, the market furnished us with a “golden cross,” which features the 50-day average climbing above the 200-day measure. These things are more descriptive than predictive, of course, as shown by the fact that since the supposedly foreboding Death Cross, the Dow Jones Industrial Average has risen some 15%.” – Barron’s October 11 – 15, 2010

The third quarter began badly for many investors but ended better. The U.S. equity market, as measured by the S&P 500, spent most of the past three months recovering from the sell off at the end of the second quarter. The economic news remains soft.

However, the economic slowdown does not appear to be getting significantly worse. Consequently, investors' concerns about a double-dip seem to be lessening. Nevertheless, many investors still appeared to be defensive during the third quarter, putting more funds into bonds and gold.

At the other end of the risk spectrum, investors willing to take risk appeared to favor emerging market equities over U.S. equities. As a result, U.S. equities lagged the emerging markets but still recovered more than half of their second quarter decline. Good earnings growth and a pledge by the Federal Reserve to pump more liquidity into the economy, if needed, helped lift equities during the past few months.

The dollar also reversed course during the third quarter. The dollar began to weaken in July as concerns about Europe's debt problems subsided, and Fed Chairman Bernanke suggested during Congressional testimony that the Fed might do more quantitative easing. Dollar weakness accelerated toward the end of the third quarter, when the Fed's talk of extra stimulus turned into a pledge, if the economy slowed further and inflation declined more.

Finally, investors’ concerns also moderated because opinion polls showed that the upcoming elections could produce a more evenly divided Congress. Many people may remember the last time that a Democratic President suffered significant losses to the Republican opposition. That was in 1994. At that time, President Clinton moved his agenda toward the political center, and stocks had a very good year in 1995. Of course, past performance does not guarantee similar future results. In fact, investors could be disappointed, if President Obama does not follow a similar course.

During this difficult period, we are grateful for your patience and courage. We are always available to your friends and family as a second set of eyes as they encounter financial events or questions in their lives. We invite you to log on to our website, [www.rmdic.com](http://www.rmdic.com), and we welcome your feedback.