

Fall 2011

One of the keys to successful investing is having the ability to anticipate change. History has shown time and again that by the time the coast is clear stocks have already made substantial gains. We believe now is the time to begin anticipating a brighter future for ourselves, our families, and our country.

The U.S. economy continues to expand but the fears of recession have increased. As a result, the stock market dropped sharply during the third quarter. In addition, the Federal Reserve decided to provide further stimulus to the economy just three months after stopping its previous stimulus program.¹

If you only look at the stock market, you might assume that the economy is already in recession. After all, the decline in the stock market during the past few months was the largest decrease in stock prices since 2008 and early 2009 when the economy was contracting. This year, the economy is still growing but the stock market dropped nonetheless. That is because investors are worried that the economy could fall into recession in the future if the European debt problems cascade beyond policymakers' attempts to contain them.¹

On the positive side, recent data suggest that the U.S. economy may have grown at a slightly faster pace in the third quarter than it did in the previous two quarters. However, the downside risks have increased because of the shock to confidence this summer when the U.S. government debt rating was downgraded.¹

The Federal Reserve reacted to the downside risks by announcing a new policy that analysts call Operation Twist. Under this program, the Federal Reserve will attempt to push down long-term interest rates by selling the shorter maturity securities in its portfolio while buying longer-maturity securities. If the economy weakens further and inflation expectations drop, the Fed is likely to do even more to boost economic activity because the Fed does not want to see deflation.¹

Finally, the decline in commodity prices during the third quarter will likely reduce inflation, allowing consumers to stretch their incomes further. In addition, a surge in mortgage refinancing will give some households potentially more discretionary income. If the situation in Europe stabilizes, the U.S. economy may still avoid recession.¹

During the recent market volatility, we have been able to email market updates to you. If you have not received emails from us and would like to be added to this distribution list, please email your name to rmdic@wfadvisors.com. In addition, if you are enrolled in Access Online, you have now been converted to the new platform as of September 17th. Please log into the new platform by December 15th to keep your Access Online account active. If you have any issues, please do not hesitate to contact us for immediate assistance.

Thank you for your continued trust and confidence. We appreciate the opportunity to provide guidance to your friends and family members as they encounter financial events in their lives. We welcome your feedback, and encourage you to visit our website at www.rmdic.com.

¹3rd Quarter 2011 Quarterly Economic Comment. For a full copy of the *Quarterly Economic Comment* publication, please call. Past performance is no guarantee of future results and there is no guarantee any forward looking statements will be attained. Wells Fargo Advisors did not assist in the preparation of this report, and its accuracy and completeness are not guaranteed. The opinions expressed in this report are those of the author and are not necessarily those of Wells Fargo Advisors or its affiliates.