



What October Holds In Store

Most of us know of Julius Caesar being warned of the Ides of March. Ides is Latin for middle-of-the-month. And indeed, Caesar was assassinated that March, in 44 B.C. Now many in the stock market are similarly cautious of the month of October because we have seen many market collapses come at this time of the year. So is this October going to be smooth, or will historical context collude with less-than-positive global economic news to cause a market drop? Here are some thoughts:

Much as I like to be the bearer of good news, it sometimes falls upon me to be your early warning system... and I feel perhaps this is one of those times. I'd rather give you a heads-up about the risks well ahead so you have time to prepare yourself, than raise the alarm when the fires raging. It's kind of like being warned about the probability of a typhoon hitting your area so you can reinforce your doors and windows, and be prepared and ready if it hits you.

So this time around, many well-informed market pundits are raising a few cautionary red flags. For one, Fed Chairman Ben Bernanke recently urged U.S. lawmakers to not cut spending on government programs too quickly – if you remember, Republicans and Democrats are locked on ways to reduce our budget deficit, with Republican law-makers calling for cuts to various government programs and Democrats calling for a tax-hike on the rich, and so forth... Bernanke's basic message was that the U.S. economy is *close to*

faltering (his own words) with anemic employment, depressed consumer confidence and financial risks from Europe. He also reassured lawmakers that the Federal Reserve was *prepared to take further action* to promote economic recovery. Which he, in fact did, by performing the so-called twist (not the chubby checker version, though I would have liked to have seen that) – he sold short term treasuries and bought long term treasuries, in effect lowering long term interest rates, which lowers interest rates on mortgages and many other financial instruments..

And Bernanke reaffirmed what I recently said in an earlier commentary – he said that *the outcome of the euro zone’s sovereign debt crisis has undermined U.S. business and consumer confidence and helped to slow economic growth* (not sure I’d use the word “helped “in this context) – but some of you may remember that this was the gist of what I too had said - that the U.S. is strong and capable of weathering storms, but our trading partners are slowing us down.

One highly respected firm – the Economic Cycle Research Institute recently said that *the U.S. economy is indeed tipping into a new recession. And there’s nothing that policy makers can do to head it off.*

And The Economist magazine carried a cover which portrayed the global economy as a black hole and bore a simple message, “Be Afraid.”

Another voice – from Andrew Tilton, Senior Economist at Goldman Sachs, echoes my view again, that *contagion from the European crisis is a serious risk, threatening to tighten credit availability in the U.S. and weaken exports to Europe.* On a more optimistic note, Goldman Sachs also says that *the U.S. economy will avoid a recession, though the risks are high and rising.* And last but not least, Warren Buffett has been

quoted as saying *there will be no recession*. I can only guess that he can see the level of business activity throughout his large empire to arrive at that conclusion.

So while things are bad, more so in Europe than in America, things aren't all that bad in places that we export to and have a considerable business presence in, like the Middle East which is raking it in with oil at close to \$80 a barrel, our trading partners in South America, and even many nations in Asia, including India, that seem to still have a lot of pent-up demand for American goods such as Whirlpool and GE appliances, industrial machinery from Caterpillar and Deere, laptops and desktops from Dell and HP, iEverything from Apple, consumer goods from Procter & Gamble, fast food from Pepsi, Coke, McDonald's, Pizza Hut, Lays, and the list goes on... In fact, close to half of the 1,500 companies in the S&P 500 index recorded year-over-year revenue growth of 10% or more – that's a pretty healthy sign.

Along more optimistic lines, Deutsche Bank recently said that *the U.S. will avoid another downturn because the U.S. corporate sector is extremely healthy, with profits per worker at a record-high*.

My view is that as long as U.S. and European policy makers show resolve and good judgment in addressing unemployment, national debt problems and banking weaknesses, the world will pull out of its current slump. That said, if things drag unnecessarily on the European debt crisis, this could draw out and give the stock market some more pain in October. So if you're planning on buying anything, perhaps now is not the time – watch the markets closely in October – and use further dips as potential buying opportunities that are a routine part of your investing strategy. So, while I am definitely not holding my breath, I am curious to see what this October brings.