



Bulls vs. Bears – A Knockout Looms, But By Whom?

Well... so as most of you who've been following the stock market already know – the bulls and bears continue to slug it out, on a daily basis. Whenever the action gets so frenetic, with no clear winner and daily jostling back and forth... the outcome is always uncertain. Think of this as a match between two very well matched competitors – Arnold Palmer and Jack Nicklaus, Red Sox vs. the Yankees... And as for us fans– this can be exciting, emotional and excruciating. We can wildly cheer our favorite team –but we also know that winning and losing-when it comes to money-has an added dimension, directly affecting our future in real terms.

Additionally, in this case, I'd rather we get a winner quickly so we can get this over and done with and adjust our portfolios to the new reality. And because you and I are so deeply vested in the outcome of this match, it's very important that we not sit idly by on the sidelines, watching this play out. So let's take a close look at both teams—the bulls and the bears—and see how the stats stack up.

Let's start with the bears.

- A woeful job market – 428,000 Americans filed for first-time unemployment benefits last week – the highest level since last July. And this is on top of the 3.7 million that already collect unemployment checks. And then there's the

announcement that Bank of America said it plans to slash 30,000 jobs. A cut large enough, some say, that it may have an effect on economic optimism among consumers, and impact GDP in a big way.

- Next ... over 22.5% of U.S. homes are currently underwater, meaning they are valued at less than what they were bought for. Falling prices may have a negative effect eliciting more caution, more fear and tighter spending. This could have a negative ripple effect on corporate profits and stock prices. Moreover, adding to the gloom, economists at banks like JPMorgan Chase are predicting another 5% drop in housing prices over the next few months – so that can't be good either.
- In addition, many more Americans are falling behind on their mortgage payments. Mortgage defaults rose 33% in August over July – which will result in foreclosures and more homes on the market, which will cause downward pressure on home prices.
- The rest of the world is not faring so well either. Europe is struggling dramatically with its various sovereign credit crises. The recent downgrade of Italy and a fear of a Greek default have already affected European stocks and American stocks alike.
- Russia – a major oil exporter - sees its economy stalling because they “fear” oil may drop to \$60 a barrel, almost half of current levels. Now, on this one, Russia's drop could well be our gain – I for one am all for paying half per gallon of gas as I am sure you are too - and herein lies some good news – and a perfect segue into

The Bulls' Point of view.

- A poor economy worldwide will naturally decrease demand for raw materials which would reduce the cost to make and deliver goods and services. This in turn

may lead to a gradual restoration of the economy into a state of long-term balance.

- The trade gap, between what we import and what we export, shrank in July quite sizably – down 13.1% to be precise, from the June number, the biggest monthly drop in recent years. This was due to a surge in U.S. exports to South America and a drop in imports because of a drop in the price of oil.
- Federal Reserve Bank chairman Ben Bernanke said he's committed to stimulating the economy. A small stimulus package could mean lower interest rates, which could boost corporate profits and drive stocks higher.

Now, back to the match... I have laid it out as I see it and frankly - we are not in pretty economic times. From my vantage point, I do not see the bulls winning this outright but I do expect some positive surprises – such as a sharp rise in the markets if the European Central Bank comes out with a solid bailout plan for debt-ridden nations, or if Federal Reserve holds interest rates flat and promises more stimulus.

At times like this, I always continue to recommend a sound asset allocation strategy – which is always a good defense against wild swings in the market. In addition, bad markets always present opportunities. As the tide goes out, many treasures are exposed. We will be there to pick them up.

And last but not the least, should the bears prevail... rejoice, because as I said in my previous commentaries, a bad market could well be your best friend over the long run.