



Another Historic Day to Ponder

Today the markets ended significantly lower as traders decided to "take risk off the table" and seek the safe haven of cash. As a matter of fact, so much money has been shoved into cash accounts lately, that the Bank of New York announced it would start CHARGING depositors to keep their money there. It is indeed a crazy world when you have to pay the bank to hold your money. Why the decline? While everyone is still trying to figure it out, the pundits are coming up with plausible and not so plausible opinions. Here are a few of their favorite themes:

- 1) Weakening US Economy
- 2) Worry over the financial condition of European Banks
- 3) A Rising Dollar (when is the last time you heard the dollar was RISING!)

Let's take them one by one.

- 1) The Weakening Economy.

The economy has been growing slower than expected and unemployment is stuck at 9.2%. This leads certain investors to conclude that corporate profits will be going down. Like the recipe for buying real estate, which is "location, location, location", the recipe for stocks, is "earnings, earnings, earnings".

The question always comes down to one thing. Does the share value of any company accurately reflect the future? If the value of a company's shares portends higher earnings yet earnings are lower, we can expect a decline in the value of the shares. One can only guess at the future, and today the market is guessing that shares prices are too high. This guess may change direction tomorrow, in one month or six. No one can foretell.

- 2) European banks

After a statement by the European Central Bank President saying economic risks "may have intensified" stock markets began a large selloff eventually spilling into the US market.

The biggest worry is that Italy and Spain are next on the list of troubled economies that will have trouble borrowing money and the Central Bank won't be much help. Spain is so much larger than Greece that complete government bailouts would not be possible. This would cause large banks to account for or "write-off" these losses, leading to a less stability of the financial system.

3) A Rising Dollar

A rising dollar forces commodity prices to fall. Oil declined by \$5 per barrel today and oil stocks declined about 6%-9%. Large oil companies account for a large percentage of the movement of a market index like the S&P 500 so their decline contributed strongly to today's sell off.

Of course, declining oil prices is a good thing for our economy. This means we can expect some future benefit as prices decline at the pump ultimately putting more money into the hands of consumers.

What Does Today's Large Decline Mean for Stock Investors?

Up to this point I have been positive on the stock market. Technical factors have been generally positive. Companies' balance sheets look very, very healthy and prices for shares are just not that high. Dividend yields in general, are very attractive.

Yet today, we saw something new. Knowing what it means will take some analysis which I will do tonight. In the meantime, we will continue to act in a disciplined manner, neither selling heavily nor buying heavily at the moment (although I did do some selective buying today).

One thing I can say. We are not anywhere near the conditions we saw in October of 2008. Our banking system is healthy and not insolvent (as it was back then), companies like General Motors which went out of business are doing well (GM just announced record earnings) and over all, in spite of the stubborn unemployment situation, business is generally doing okay.

I will be actively staying in touch as the situation develops. Also, I will be discussing this topic and more on the radio show, which can be heard on your computers at www.onthemoneyradio.org. Listing times for the show are also available at the site.