



# Market Commentary

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*Fed Chairman Bernanke seemed to convince investors last Friday that monetary policymakers are in control and stand ready to do whatever it takes to rescue the United States economy. There were positive reactions in the stock market last week into the face of negative news. It is premature to suggest that investors have changed their attitude to the worst is behind and it is time to look to better times ahead. For now, investors need to remain patient as the economy navigates itself through a bumpy road ahead.*

**DJIA 10,044.31**

## Uncertainty, Part Two

Last week I attended my child's high school open house. The crowd of parents flowed into the building and that's when I quickly realized that, in spite of a few visits, I really didn't know my way around the school. Now I faced the same "turmoil" and uncertainty my kids experienced a week earlier when they started the new school year. Several other freshmen parents were chatting about the same apprehensions I had about navigating the school. Later, I ran into acquaintances and friends who were either alumni and/or have older children who attend the school. They had completely different perspectives and navigated from classroom to classroom with great ease. Then there were the senior student volunteers, who had their own smug perspectives, as well as unique directions to find the hidden-away labs and other hard to find rooms. Several different directions were offered, but ultimately the same destinations were reached. All ended well, but it was an enlightening experience, not unlike the task Federal Reserve Chairman Bernanke faced Friday, August 27 at his annual speech at the Jackson Hole, Wyoming economic symposium.

The financial media "declared" that Bernanke had to deliver a great speech and appease market expectations about the Fed's possible courses of action, especially with the current extreme macroeconomic concerns. The

speech was billed as a tough task for Bernanke to convince investors that the Fed was in control and capable of revving up U.S. economic growth. What made it so tough was Bernanke was not addressing just one set of market expectations, but rather several different perspectives and expectations about what the investing public wanted to hear. Seemingly, Bernanke hit the mark; the Dow rallied 167 points and almost wiped out all of the net losses from the prior four days. Bernanke did not really say anything new. His pledge was that the Fed stands ready to do whatever it takes to rescue the economy, including using unconventional measures if necessary, and he expressed confidence about the U.S. economy's 2011 outlook.

Several other positive reactions showed a slight change in the stock market's personality and small signs of less pessimism. Ahead of Bernanke's Friday speech, downward revisions to the second quarter gross domestic product figures (GDP) were not as much as analysts expected. Yet, the headline GDP figure still represented the slowest rate of growth during this recovery cycle. Investors shrugged off a revenue shortfall warning from a high-profile semiconductor company. On Wednesday, August 25, there was more negative European debt news, the headline and details of the July durable goods orders made for

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dismal reading and July new home sales fell to the lowest level on record. The stock market's reaction was a sharp broad sell-off, followed by an equally sharp reversal higher and it indicated some climactic selling. The best outcome would be if this is a start of a shift in investor sentiment - the thought process that the worst is behind for the economy and it is time to look ahead - but at this time, one good rally on bad economic news and with still many uncertainties, it is grossly premature to come to that conclusion.

Everyone's common desire is to see the U.S. economy navigate its way through the current soft patch and eventually return to accelerated growth. From our perspective, this may take a combination of monetary

initiatives as Bernanke has pledged, fiscal initiatives out of Washington, definitely patience, and there will be bumps in the road to get there. The economy will continue to muddle through as investors continue to face many uncertainties. As we said last week, eventually investors will look past the here and now and collectively anticipate better times ahead long before the economic news gets better. I learned last week that it will take time and patience to find my way around my child's new high school. Right now, investors need to invest in patience and hold some cash while the economy continues to work through the many uncertainties and dig itself out of a big hole.

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