Leigh Baldwin & Co.

Investment Brokerage

There Ain't No Cure for the Summertime Blues

The Who famously sang, "Sometimes I wonder what I'm gonna do, there ain't no cure for the summertime blues…" during most of their live performances beginning in 1967. The song was originally written by Eddie Cochran, an American rock-n-roll pioneer who died tragically in 1960 but who lives on as a pop influence from the Beatles to Bruce Springsteen and Alan Jackson. Our topic this quarter is unfortunately not the history of rock, but more about the summertime blues experienced by investors this past quarter.

As is now well documented, the markets were a dog. The S&P 500 fell just over 14% while the venerable Dow lost 12%. Not to be outdone, the riskier, smaller companies represented by the Russell 2000 index were down 22% in the third quarter, which puts those issues into the bear market camp. The summertime blues also extended to the US in general, as for the first time ever, the credit of the US government was deemed to be less than AAA by the S&P ratings agency. Excluding the fourth quarter of 2008 as we plunged headfirst into the credit crisis, this was the worst quarter for stocks in nine years. There I said it, "the worst quarter for stocks in nine years." So what is an investor to do?

With history as our guide, we know that September is on average the worst month of the year for stocks. In October, stocks have faired positively since 1950, so we have that going for us. Also working in our favor is the fact that companies are lean and still very profitable and the up-coming earnings reports should be positive and the key will be our ability to decipher whether there is a long-term economic slowdown or whether we are just talking ourselves into one. Stock and stock mutual fund investments ultimately perform based on earnings and we believe there may be too much bad news already baked into that cake as of now, which is a positive for investors.

Speaking of positive, we also believe that stock investments should be positive when relative to cash and/or bonds for the near and longer term outlook. In record setting fashion, the 10 year US government bond was priced to yield about 1.68% just over a week ago. 1.68% a year for ten years does not buy anything when adjusted for inflation. Some of the greatest companies in the world, companies that have a higher credit rating than Uncle Sam, are priced to yield from 3.5% to 4.5% and are also simultaneously sporting historically low P/E ratios and historically high earnings forecasts. This may be a very compelling time to increase equity positions versus bond positions for those with a moderate time horizon.

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Chubby Checker sang “Let’s twist again, like we did last summer,” in 1961 all the way to a Grammy as best Rock and Roll Solo Vocal Performance and keeping with the rock theme, the Fed is beginning this month its latest version of QEIII, “the Twist”. The Fed plans on shuffling its holdings to keep interest rates down to stimulate the economy. With an accommodative Fed keeping rates low and politicians ready to do anything in the short run to keep the markets afloat, we believe that stocks could have a strong 4th quarter, no matter what you read or see on the television. Volatility is very high, so a well planned, well thought out, and well executed investment approach is needed. Once again, thank you for your continued business and we look forward to speaking and meeting with you personally over the next several weeks to make sure you are positioned to rock and roll well into the future.