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Which way are we going?

The last three months have been rough. The stream of bad news, coupled with occasional flickers of optimism, led to one of the most volatile periods ever for stocks. The Dow moved more than 200 points 18 separate times during the quarter, swinging by more than 400 points on four consecutive days in August alone.

The word "volatile" has been so overused in the media, but it's hard to find a better way to describe recent movements in the financial markets. On any given day, the markets can rise or fall based on the latest thinking about euro-zone sovereign debt problems, a possible U.S. or Chinese recession, weak banks, inflation, deflation, or poor job numbers.

In the just completed third quarter, uncertainty (there's another overused word!) was in full bloom. Was the market sniffing out a new recession? Possibly. Last week, the respected Economic Cycle Research Institute was quoted in MarketWatch as saying, "The U.S. economy is headed for another recession that government intervention cannot prevent."

But, not everyone agrees with that assessment. Warren Buffett told CNBC last week, that "it's very, very unlikely we'll go back into a recession."

So, who are you going to believe? The market's jumpiness may reflect the fact that market experts have completely different views of the economy.

What to watch in the fourth quarter

Here are a few things that made the headlines in the third quarter and may affect the markets over the final three months of the year:

- *The S&P 500 index dropped 14.3 percent in the third quarter and is now down 10.0 percent for the year.*

  What to Watch: Third quarter corporate earnings will start rolling in soon and investors will scour them for any sign of weakness. For the past few quarters, strong earnings helped the market recover from the Great Recession. While some earnings weakness may already be priced in the market, we have to wait for the actual earnings to see how the market reacts.

- *Commodities and precious metals experienced significant price movements during the quarter. Gold prices finished the quarter up 8 percent, while silver dropped 14 percent, according to MarketWatch. Oil prices declined 17 percent for the quarter, while copper dropped a stunning 26 percent. On the agricultural side, corn prices finished the quarter down 25 percent from their June 10 all-time high, according to The Wall Street Journal.*

  What to Watch: Recent declines in oil and copper prices are particularly noteworthy because they may presage a slowing worldwide economy. Lower oil prices would help raise consumer confidence and boost spending in the months ahead.

- *The housing market is still weak and that puts a significant drag on economic growth. According to the most recent S&P/Case-Shiller Home Price Indices, housing prices around the country are back to where they were in the summer of 2003.*

What to Watch: Mortgage rates are at a record low yet the housing market is still in the doldrums, according to Bloomberg. Any sign that housing is turning the corner could bode well for the economy and the markets.

- *Interest rates on U.S. government securities dropped significantly in the third quarter as the flight to safety continued. The yield on the 10-year Treasury note recently hit a paltry 1.67 percent -- the lowest yield since the 1940s. While low rates are good for businesses and our indebted government, it's bad for savers who rely on interest income to support their living expenses.*

  What to Watch: If interest rates keep dropping in the fourth quarter, it may suggest investors are still in a fearful state. Ironically, it could be a good thing to see interest rates rise -- as long as it's due to economic growth and not due to money printing by the Federal Reserve.

- *Sovereign debt woes in Europe and budget wrangling in the U.S. weighed on the financial markets in the third quarter.*

  What to Watch: Continued bad news here could be very problematic. However, if there's any concrete resolution to the Euro-zone debt problems or a credible bi-partisan budget solution in Washington -- look out. The financial markets could rally strongly on that kind of news.

With the above issues looming, you can see why the markets are a bit nervous. Yet, even if the market swoons in the fourth quarter, it could make valuations so compelling that it sets the stage for the next bull market.

I understand this amount of uncertainty in our future creates a lot of fear which can be contagious, but I urge you not to let it overtake you. While many types of investments are currently experiencing a difficult period, I believe that, over time, those who remain committed to their long-term investment plan should be rewarded. If you have any questions or would like any guidance, please don't hesitate to reach out to me. I would consider it a great privilege to help you protect what you've worked so hard to earn.

Sincerely,

Mike Ovshak, CFP®

Some material received by Peak Advisor Alliance

The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.
The DJ Global ex US is an unmanaged group of non-U.S. securities designed to reflect the performance of the global equity securities that have readily available prices.
The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.
Gold represents the London afternoon gold price fix as reported by the London Bullion Market Association.
The DJ Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
The DJ Equity All REIT TR Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.
Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
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Consult your financial professional before making any investment decision.