

Capstone Comments

A forum for communicating information about the management of assets

Q:
A:

2012 2nd Quarter What happened to the stock market?

The first quarter of 2012 provided the best stock market opening in 14 years, the market spent most of April flat and was rocked again in May with volatility. The S&P 500 rebounded gaining 4.1% in June and posted a 1st half gain of 9.5% (BTN Research, July 9, 2012).

The market is facing uncertainty from many sides, not all necessarily bad. The consumer is still skittish from the Great Recession of 2008-2009, so any *noise* seems to have an effect on the market and on the consumer. The following are the “challenges” we see facing the market and the economy:

- European Debt: Europe continues to struggle to find its way and many are still questioning the fate of the Euro. Europe appears to be in a similar situation as the US in 2008-2009. The market seems to respond to any news whether it is positive or negative coming from across the Atlantic Ocean.
- Gross Domestic Product (GDP): The first quarter’s GDP of 1.9% has caused the Federal Reserve to revise its 2012 forecast from 2.4-2.9% to only 1.9-2.4% (InvesTech Research, June 29, 2012).
- Tax Uncertainty: The Bush tax cuts that were extended in 2011 are set to expire at year-end and as the US deficit continues to grow, this issue and bipartisan politics may come to the forefront again. These will be much anticipated topics for discussion during the Presidential Election.
- 2012 Election: This election is being touted as one of the most important in a generation as many feel there could be many changes in terms of the size and role of our government and the current tax/regulatory structures (Columbia Management – Perspectives, July 9, 2012).

Although it appears the market faces many challenges, we feel there are still many positives. Existing home sales continue to increase. New construction and home prices have finally stabilized in many areas. Corporate earnings are still good as their balance sheets remain strong. The upcoming Presidential Election provides good news as we’re heading into one of the historically strongest quarters in the 4-year cycle. The Federal Reserve has indicated that it is willing to act if need be to stimulate the economy. The 2nd Quarter earnings season may also give us a glimpse of the future. With such apparent negativity in the market, it leaves many wondering if this isn’t an opportunity.

“A pessimist sees the difficulty in every opportunity; an optimist sees the opportunity in every difficulty.” Sir Winston Churchill

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