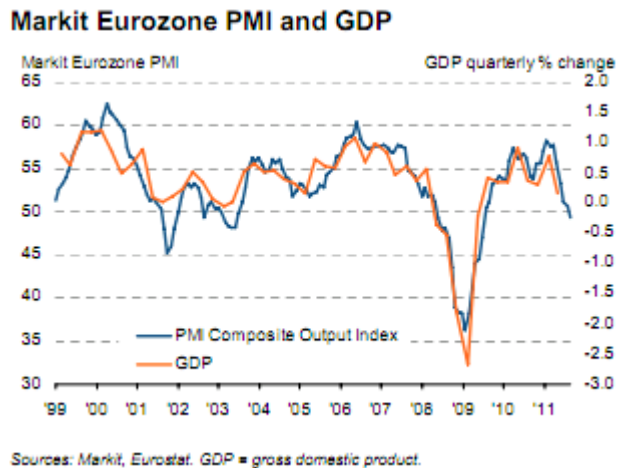


A SLOW GRIND TO ZERO

WEB BUZZ 2011.10.11

The U.S. economy continues to slow. The markets also continue to signal that what little economic expansion we had is over. Probably the most disturbing sign of late is the repeated number of layoffs for the month of September. Challenger, Gray & Christmas, Inc. revealed that there were 115,730 planned layoffs, the most in two years, compared to August which had 51,114. This larger number probably was not reflected in the October 7th employment number for September. Employment is a coincident indicator; therefore it reflects the current state of the economy.

If you may recall, the last recession (12/1/07 - 6/30/09) was led by the downturn in the U.S. This current one, which we assume we are having, is being led by Europe as evidenced by the chart below.



Adapted from pragcap.com

As mentioned earlier, the markets are beginning to signal a recession - but only grudgingly so. The equity cult in this country is holding on for dear life. For example, individuals poured into equity mutual funds during September even though the stock market was very weak. Buy on the dips, the mantra of Wall

Street, is alive and well. They are great at creating bag-holders. At the same time, bond funds were liquidated. Why? Yields are too low. Again, investors not understanding that one should not buy for yield, but should buy for capital gains just like you do with stocks.

Timing is always a problem, as well as severity and length. What we do know is that the indicators we follow and have treated us well in the past are flashing alternately yellow and red.