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# Market Month: November 2012

## The Markets

Politics and the weather were the primary factors driving equity investors in November. The elections, concern about potential gridlock in Washington, the beginning of year-end tax maneuvers, and the continued high-wire act in Europe all contributed to volatility during the month, and Hurricane Sandy's residual effects didn't help. All the uncertainty put pressure on equities, particularly the Nasdaq and small-cap Russell 2000. However, 3%-plus gains during Thanksgiving week left investors grateful that only the Dow ended November in the red for the month. The techs of the Nasdaq, which had been beaten down for several weeks, also saw the biggest gains, followed closely by--for a change--the Global Dow.

The uncertainty helped bond prices, which rose as yields slipped. Oil prices edged up slightly to end the month just under \$89 a barrel. Despite volatility, gold ended November at \$1,727, roughly \$10 higher than where it began. And despite a bump mid-month as a result of uncertainty over Greece, the dollar saw minimal gains, ending the month at just over \$80 against a basket of six currencies.

Market/Index	2011 Close	Prior Month	As of 11/30	Month Change	YTD Change
DJIA	12217.56	13096.46	13025.58	-.54%	6.61%
Nasdaq	2605.15	2977.23	3010.24	1.11%	15.55%
S&P 500	1257.60	1412.16	1416.18	.28%	12.61%
Russell 2000	740.92	818.73	821.92	.39%	10.93%
Global Dow	1801.60	1920.16	1942.07	1.14%	7.80%
Fed. Funds	.25%	.25%	.25%	0 bps	0 bps
10-year Treasuries	1.89%	1.72%	1.62%	-10 bps	-27 bps

Equities data reflect price changes, not total return.

## The Month in Review

- Third-quarter economic growth was better than previously thought. The Bureau of Economic Analysis said its second estimate showed gross domestic product rising by 2.7%. That's substantially better than either the initial 2% estimate or the 1.3% growth of a year ago, and was helped by higher private inventory investments and exports. Meanwhile, after-tax corporate profits rose \$48.1 billion, or 3.3%; that's an improvement over Q2's 2.2% increase. Net dividends were up 1.5% for the quarter and were 7.5% ahead of Q3 2011.
- The U.S. economy added 171,000 jobs in October and job growth in the previous two months was revised upward, according to the Bureau of Labor Statistics. However, the unemployment rate ticked up slightly from 7.8% to 7.9%, in part because more people once again sought to enter the labor force.
- Europe battled its second recession in four years as a 0.1% contraction in its gross domestic product followed Q2's 0.2% contraction. In the wake of Greece's adoption of additional austerity measures, the country's three primary creditors agreed to a longer timetable for reduction of Greece's debt burden, paving the way for another €43.7 billion in financial assistance.
- The Chinese Communist Party rejected reform-minded candidates to lead the country's highest decision-making body over the next decade in favor of more conservative candidates. Xi Jinping will replace Hu Jintao as party chief and China's de facto leader. Meanwhile, China's manufacturing sector expanded for the first time in 13 months, according to HSBC's November survey of

purchasing managers there.

- In the wake of the November elections, Washington turned its attention to talking about how to avoid the so-called fiscal cliff next year. Despite initial conciliatory noises, participants from both parties continued to disagree over spending cuts and tax increases.
- The housing market continued to heal. Home prices measured by the 20-city S&P/Case-Shiller index saw their sixth consecutive month of increases, while October's 3.6% increase in housing starts put them at their highest level in four years and 42% ahead of a year ago. The Commerce Department said sales of new homes slipped 0.3% in October, though they were 17.2% higher than a year earlier, while the National Association of Realtors® said sales of existing homes were up 2.1% for the month and 11% since last October. Finally, the Mortgage Bankers Association said mortgage delinquencies in the third quarter were at their lowest levels in almost four years.
- The biggest jump in housing costs since March 2008, along with higher costs for clothing and airfare, helped push up the Consumer Price Index in October, according to the Bureau of Labor Statistics. The 0.1% increase put overall consumer inflation at 2.2% for the last 12 months. Meanwhile, despite a 0.4% increase in foods, lower energy costs helped cut wholesale prices 0.2% for the month, leaving inflation at the wholesale level for the past year at 2.3%.
- Reports on consumer spending over the Black Friday weekend raised hopes for a robust holiday shopping season to come. Retail sales and consumer spending were slowed by Hurricane Sandy, though the Commerce Department said it couldn't quantify how much of October's declines of 0.3% in sales and 0.2% in spending could be attributed to the storm. Incomes rose less than 0.1%, though it was the 11th straight month of increases, and the personal savings rate rose slightly to 3.4% of income.
- Sandy's impact on the East Coast also did some damage to U.S. manufacturing activity. The Commerce Department said declines in auto- and aircraft-related activity left durable goods essentially unchanged in October, though nondefense capital goods orders other than aircraft were up 1.7%. The Federal Reserve said Sandy also was a strong contributor to the 0.4% decline in October's industrial production.

## Eye on the Month Ahead

The approaching fiscal cliff and Washington's ability (or lack thereof) to agree on a detour will likely continue to drive investor sentiment. Any volatility from tax-related year-end portfolio tidying could be exacerbated unless there is an agreement before Congress's scheduled adjournment December 14.

Key dates and data releases: U.S. manufacturing, construction spending (12/3); business productivity, factory orders, U.S. services sector (12/5); unemployment/payrolls (12/7); balance of trade (12/11); Federal Open Market Committee meeting/forecasts, import/export prices (12/12); wholesale inflation, retail sales, 30-year Treasury bond auction (12/13); consumer inflation, industrial production (12/14); Empire State manufacturing survey, international capital flows (12/17); housing starts (12/19); final estimate Q3 gross domestic product, home resales, Philadelphia Fed manufacturing survey (12/20); personal income/spending, options expiration (12/21); durable goods orders (12/24); home prices (12/26); new home sales (12/27).

*Data sources for non-equities performance: U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold, NY close); Oanda/FX Street (currency exchange rates). All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Past performance is no guarantee of future results. Equities data reflects price changes, not total return.*

*The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. The U.S. Dollar Index is a geometrically weighted index of the value of the U.S. dollar relative to six foreign currencies. Market indexes listed are unmanaged and are not available for*

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*direct investment.*

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