Abel Financial Strategies
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Market Month: October 2012

The Markets

Superstorm Sandy had relatively little impact on financial markets despite the first back-to-back weather-related closings in more than a century. However, other factors--disappointing corporate earnings, anxiety about the proximity of elections and the fiscal cliff, profit-taking after September's year-to-date highs--had already taken their toll. Investors brushed off some relatively benign economic data and sent equities south. The Nasdaq, which suffered in part from lackluster earnings reports from some bellwether tech companies, was hit the hardest. Meanwhile, the lack of fresh trauma abroad, a reaffirmation of Spain's investment-grade bond rating, and a timeline for creation of a eurozone banking supervisor helped the Global Dow.

The yield on the 10-year U.S. Treasury rose more than 20 basis points before retreating a bit at month's end. Gold fell roughly $70 to end at $1,710 an ounce. As oil and gas wells sidelined by Hurricane Isaac began to come back online, oil prices fell from more than $92 a barrel to just over $86 a barrel, helping in turn to reduce gas prices. And despite sagging a bit mid-month, the dollar ended October relatively unchanged against a basket of six foreign currencies.

Market/Index	2011 Close	Prior Month	As of 10/31	Month Change	YTD Change
DJIA	12217.56	13437.13	13096.46	-2.54%	7.19%
Nasdaq	2605.15	3116.23	2977.23	-4.46%	14.28%
S&P 500	1257.60	1440.67	1412.16	-1.98%	12.29%
Russell 2000	740.92	837.45	818.73	-2.24%	10.50%
Global Dow	1801.60	1921.70	1920.16	-0.08%	6.58%
Fed. Funds	.25%	.25%	.25%	0 bps	0 bps
10-year Treasuries	1.89%	1.65%	1.72%	7 bps	-17 bps

Equities data reflect price changes, not total return.

The Month in Review

- U.S. economic growth accelerated in the third quarter, rising to 2% from 1.3%, according to the Bureau of Labor Statistics' initial estimate. The increase was driven in part by a 14.4% jump in construction spending, consumer spending that rose 2%, and a 3.7% increase in federal spending, primarily on the military, while capital spending by businesses fell 1.3%.
- The unemployment rate fell in September to 7.8%, its lowest level since January 2009. The Bureau of Labor Statistics said the addition of 114,000 jobs to the nation's payrolls cut the unemployment rate by 0.3%, the biggest monthly decline since January of last year.
- The housing market continued to show encouraging signs that the worst might be over. A 5.7% jump in sales of new homes put them more than 27% higher than this time last year, according to the Commerce Department, though the National Association of Realtors® said the sales of existing homes were down 1.7% for the month. Housing starts shot up 15%--their biggest increase since July 2008 and the third straight month of gains--and building permits were more than 45% higher than a year earlier. Meanwhile, home prices measured by the S&P/Case-Shiller 20-city index continued to rise, hitting their highest level since September 2010, and according to RealtyTrac®, mortgage foreclosures were at a five-year low.
- Gas prices contributed to a 0.6% jump in consumer inflation and a 1.1% rise in wholesale prices, according to the Bureau of Labor

Statistics. That put the annual consumer inflation rate at 2%, slightly higher than in August, and the annual wholesale rate at 2.1%.

- In China, economic growth slowed for the seventh quarter in a row, falling from 7.6% to 7.4%. Meanwhile, the International Monetary Fund cut its forecast for global growth to 3.3% this year and 3.6% next year, calling the risk of a serious global slowdown "alarmingly high." In the eurozone, unemployment hit a new record of 11.6%.
- The Commerce Department said retail sales jumped 1.1% for the month, while the 0.8% increase in consumer spending was the strongest since February.
- Manufacturing data for the month was mixed. Strong orders for commercial aircraft helped durable goods orders soar almost 10% (their biggest increase in more than two years, according to the Commerce Department). The Fed said industrial production also was up 0.6% for the month, and the Institute for Supply Management's index turned positive for the first time in four months. The Philly Fed survey of manufacturing activity saw its first increase in five months, but the Empire State survey continued to show contraction.

Eye on the Month Ahead

As the country continues to assess the economic impact of Sandy's devastation, Friday's unemployment report--the last before the November 6 elections--will receive even more attention than usual. Post-election financial markets are likely to begin assessing how the results might affect the January 1 fiscal cliff and renewed debate over the debt ceiling.

Key dates and data releases: business productivity/costs, U.S. manufacturing (11/1); unemployment/payrolls, factory orders (11/2); U.S. services sector (11/5); balance of trade (11/8); wholesale inflation, retail sales, Federal Open Market Committee minutes (11/14); consumer inflation, Empire State/Philly Fed manufacturing surveys (11/15); industrial production, international capital flows, options expiration (11/16); home resales (11/19); housing starts (11/20); leading economic indicators (11/21); durable goods orders, home prices (11/27); new home sales, Fed "beige book" report (11/28); 2nd estimate of Q3 gross domestic product (11/29); personal income/outlays (11/30).

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 direct investment.