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September brings positive quarter

Client Newsletter
Quarter Ending September 30, 2010

For the recent quarter ending September 30, 2010, the market had a decidedly positive move. U.S. general stocks were up 11.1%, exactly matching their trailing twelve month gain. International stocks were stronger with a 16% gain vs. 11.1% for the trailing twelve months. Taxable bonds gained 4% vs. 10.4% for the trailing twelve months, and municipal bonds gained 33% vs. 5.5% for the trailing twelve months.

Growth stocks outperformed value stocks in all categories, large cap, mid cap and small cap, with mid cap performing the best.

Precious metal stocks, led by gold, performed the best for the trailing twelve months at 36.5% followed by Real estate, with natural resources and technology leading the way for the quarter.

The above numbers demonstrates the wisdom of holding a steady course over turbulent market times. But the averages are still off their highs reached on October 2007, but considerably above the lows reached on March 2, 2009. While there is still work to do, it is getting done.

The market has gained in spite of poor economic data in jobs, housing and earnings data. Still corporate profits appear to continue their positive momentum with early reports showing increases, but many more reports are to come.

The weak economic data has set the stage for more “quantitative easing” by the Fed, but even the Federal Reserve Board is internally divided on this issue. The suggestion of quantitative easing sent the dollar down, and bonds rallying. Commodity prices increased, suggesting that inflation might be in the offing. However at the moment the Fed is far more concerned about deflation than inflation, which might be another reason for quantitative easing. Expect interest rates to remain low for some time.

Multinationals and companies with strong international sales should benefit from the weaker dollar. Look for manufacturing to benefit. Commodity price increases will have a negative effect on purchasers, but a beneficial effect on producers. Metal prices and food prices are already showing increases. Currency battles continue between governments as each nation tries to gain a competitive advantage. Long gone is the U.S. interest in a strong dollar, opting instead for a weak dollar.

We have done our best to navigate these treacherous waters with a degree of success as I hope your performance numbers demonstrate.

We look for continued strength in international stocks, multinationals, manufacturing, commodity related and surprisingly, pockets of consumer stocks and real estate.   We expect continued weakness in financials. Bonds carry their own special risk as more and more investors see a bond bubble.

As always we are pleased to be your investment manager. The recent client survey we you returned gave us confidence that we are on the right track. We hope you will call us with any questions, and we especially appreciate referrals which are the principal source of our growth.

Best personal regards,

William D. Rutherford, President
Rutherford Investment Management LLC.