

Given the fluidity of the markets, I am once again just sending a Market Insight commentary without charts. Please feel free to pass this along.

Market Insight: Confidence Crisis

The events over the last 10 days have drastically changed the market environment from hopeful and stable to highly uncertain and volatile. Though the violent price action is being compared to 2008, the economic landscape is different. In 2008, the private credit bubble burst, causing a huge liquidity crisis and loss of private capital. These losses were absorbed by the US Government, and financial asset prices were able to recover. Today, the market has plenty of liquidity but is being hammered by what I call a confidence crisis. Yesterday, the Fed confirmed the economy is weakening and basically said there is not much they can do to stimulate growth. The Fed's greatest fear is deflation, and has responded by their decision to keep short rates at zero through 2013. Stimulus must come from radical and significant adjustments in fiscal policy. The markets are sending a loud message to Washington demanding change, yet no one is there to listen. With congress on recess until September, there is no leadership for the markets to look to for hope/assurance. Thus, markets are likely to remain wildly volatile and probably continue to press to the downside.

Strategy: Near term capital preservation is the theme. Risk positions have been reduced through moving into lower beta assets; floating rate assets have been moved to fixed rate; and some cash has been raised. Gold is the currency of choice for the markets but is hugely overextended. On a pull back, more exposure may be added. Corporate Bonds, and dividend paying growth stocks are providing some stability to the portfolios. Longer term, once the markets digest the fact that the US no longer drives the global economy, there are many opportunities for investment. Global Operators who can leverage on the emerging economies and stocks with high quality balance sheets, will perform well.

Please call with any questions or concerns.

Kind Regards,
Barb

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