

GUARDIAN

A PUBLICATION FOR THE CLIENTS OF PORTFOLIO STRATEGIES, INC.

Market Commentary

by Bill Whatmough



The holidays are right around the corner. This is the perfect time to be spending with family and friends, and not being concerned with your investments. When you hired PSI, you were given access to professional money management. Be assured that we monitor your account daily, so you can concentrate on living your life.

All of us at PSI want to be among the first to wish you and yours a wonderful holiday season.

John Williamson
Managing Partner

THE GOOD NEWS IS THE UGLY 3RD QUARTER is finally over. The bad news is the pain still lingers. Hopefully, there are better news and better markets ahead in the normally bullish 4th quarter. However, this market has been nothing that remotely resembles normal.

All market indices continued to tumble with the small cap Russell 2000 leading the way down, tanking 11.2% in September and a whopping 21.8% in the 3rd quarter. The S&P 500 followed, losing 7.0% for the month and 13.8% for the quarter. The Nasdaq Composite lost 6.3% in September and 12.7% in the 3rd quarter. The Dow Jones 30 Industrials held up the best, falling just 5.9% in September and 11.4% in the quarter. Year-to-

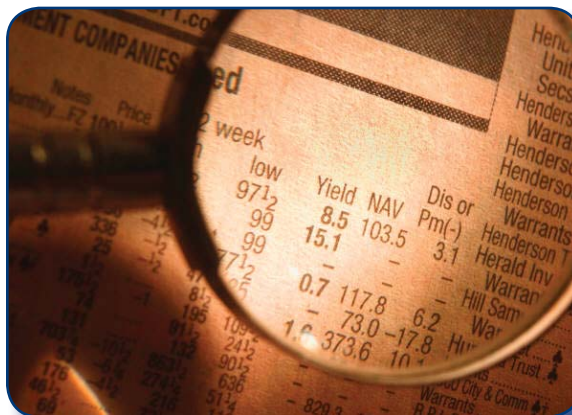
date, the Dow Jones 30 has turned in the best performance down 3.9% for the year. This is as expected because blue chip stocks are considered safe havens and are usually the last group to fall. Worst performer, again as expected, was the more speculative small cap Russell 2000 which has tumbled 17.0% for the year.

The bulk of the losses in the quarter were self-inflicted, coming during the debt ceiling circus as the two aisles of Congress played Russian roulette with the economy. Since then, the market has been bouncing around violently, but stuck in a trading range between about 1,120 and 1,220 on the S&P 500. The market has seemingly reacted to only one

thing—what’s happening in Europe in their debt crisis and possible bankruptcy in Greece and its potential spread into Spain and Italy. Both normal market seasonality and market technicals were shoved aside as the market marched to its only drummer, the latest news or rumors concerning Greece and the rest of Europe’s debt woes. Volatility for much of the quarter was near record levels with daily moves both up and down of several hundred Dow points the rule not the exception. Even

more abnormal was the wide spread in performance between market indices and sectors, as often bank stocks, energy stocks, gold, or utilities, for example, raced off to huge gains or losses diametrically opposed the rest of the market.

This volatility is a great reminder that portfolios should include a portion in defensive strategies. Many of our programs include managers that are quick to run to cash when markets are unpredictable. If the fluctuations in the market bother you, give your Representative a call to discuss how PSI can provide you a safe haven. ❁



The Guardian is published by:

Portfolio Strategies, Inc.

1724 West Union Avenue, Suite 200

Tacoma, WA 98405

(253) 383-1676 or (800) 959-2001

Website: www.portstrat.com

Something Has to Change

OVER THE YEARS, *USA TODAY* HAS KEPT A RUNNING total of the amount of government debt accumulated per household. The figures below are from the June 7, 2011 article, "Government's mountain of debt," by Dennis Cauchon. With the exception of Federal debt, which is funds spent to date, these costs are the unfunded liability over the lifetime of those now in the program as workers and retirees. To meet the promises made by federal, state, and local governments, each household in the U.S. will owe \$568,800 over the next 20-30 years. And that is most likely an underestimate.

If you pay income taxes...it gets worse

Under our current tax system, roughly 45% of households pay no income taxes, although they may be contributing to Medicare and Social Security via payroll taxes. That puts the obligation for unfunded government liabilities on the remaining 55% of households, upping their burden to in excess of \$1 million per income-taxpaying household.

One option of paying government liabilities—soak the rich—runs into a problem in that the rich pay the most in taxes on capital gains, not income. In the past higher tax rates have resulted in less capital gains to tax.

The intractable problem is excessive debt. Something has to change. ❁

Program	Unfunded Liability	Obligation per Household
Medicare	\$24.8 trillion	\$212,500
Social Security	21.4 trillion	183,400
Federal debt	9.4 trillion	79,900
Military retirement/disability benefits	3.6 trillion	31,200
Federal employee retirement benefits	2 trillion	17,000
State & local government obligations	<u>5.2 trillion</u>	<u>44,800</u>
	\$66.4 trillion	\$568,800



PRRST STD
U.S. POSTAGE
PAID
TACOMA WA
PERMIT 356