



Bulletproof in America? Not quite.

The first quarter of 2011 was amazing. Not from the standpoint of the US equity markets having their best quarter in a decade, but from the standpoint of the markets moving higher while so many things have gone haywire. The Arab Spring has brought us oil prices near \$120 per barrel, adding to our already climbing food and energy costs. Greek and Irish 10-year bonds are yielding more than 10% as investors fear that these countries will become deadbeats and not pay on their debts. Japan suffered a catastrophe, which has been followed by a nuclear nightmare. In the US our Federal Reserve is nearing the end of its money-printing binge, which may or may not lead to financial Armageddon. In the face of all this, our equity markets shrugged and marched higher. Amazing. Is it warranted? We'll soon find out.

There were some positive signs in our economy, no doubt. We are not shedding jobs as we were in 2008 and 2009. According to the Bureau of Labor Statistics we are currently adding around 200,000 jobs per month. This is nice, but since our workforce is growing by roughly 100,000 per month, the extra 100,000 jobs created won't go far to alleviate the unemployment problem. Profits are strong, but that is for corporations. As people, our income actually fell a small amount in the last several months.

The real test of how this year, and even this recovery from the Great Recession, will unfold is coming in the month of June. It is then, June 30th to be exact, that the recent round of money printing by the Federal Reserve is set to end. When the Fed prints money, it ends up in banks as deposits, which overloads our economy with "cheap" dollars. This is supposed to make lending easy, and therefore spur on economic activity, particularly in areas that involve debt, like housing and durable goods. For the past two years the Fed has been cranking the printing presses, and will have created over \$2.3 trillion out of thin air by the end of June. What do we have to show for it? A lightening run in stocks, a tepid recovery in our economic growth, a very mild recovery in employment with falling wages, and a housing market that has yet to bottom. If this is what trillions of newly printed dollars will purchase, it will be interesting to see what happens when the printing presses stop.

So while it might have seemed like our equity markets could do no wrong, even in the face of tremendous headwinds and difficult events overseas, it is possible that much of that strength has come through the efforts of the Fed. In the months ahead we will find out just how sustainable this recovery really is. Keep a close watch on your investments, it could get very dangerous for your financial health!

Sincerely,

Jeremy E. Portnoff

Jeremy E. Portnoff, CFP®, AIF®, CRPS®, CES™, CFS®, CTS™, CAS®

NAPFA Registered Advisor

Ed Slott Master Elite IRA Advisor

HS Dent Master Certified Advisor

Paladin Five-Star Advisor