American Heritage Securities, Inc.

affiliated with

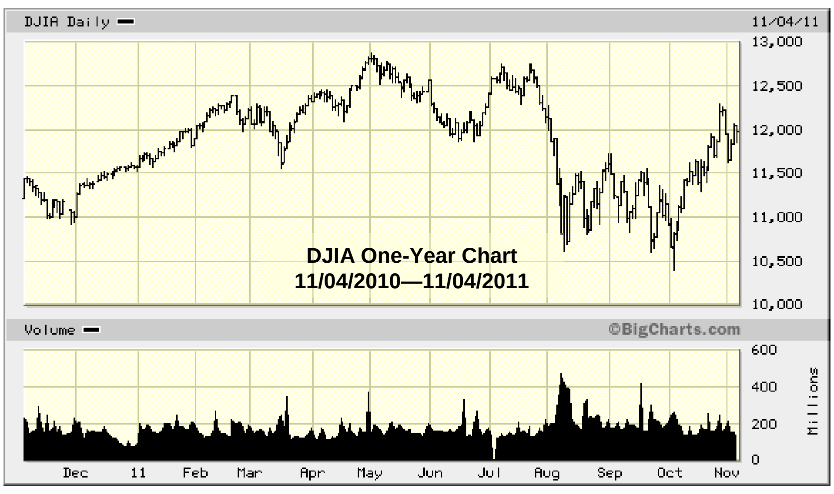
EGI Financial, Inc.
Registered Investment Advisor

Market Update
November 4, 2011

Drama Queen: That pretty well describes the personality of the stock market over recent months. October has long had a reputation of high market drama and this year was no exception. Thankfully, October 2011 ended a five month, 17%, losing streak. The S&P 500 advanced 11% last month—the second best October in history—and stocks gained 17.1% from October 3rd through October 28th. Those 19 days were better than 9 of the last 11 calendar **years**. Volatility over the past quarter has been incredible—take a glance at the below year-to-date Dow Jones chart and you might mistaken it for an EKG gone wild. And, although October clearly broke out to the upside, the first few days of November show no let-up in the wild market gyrations.

The volatility and uncertainty is mind-numbing. Even those of us who might be considered “hard-core,” very long-term investors, and who have experienced many crises over the past 40 years, are having trouble coping with the current mayhem. No one enjoys watching portfolios values swing by 10% or more in a month and we continue to try to understand the causes and meaning of all the turmoil.

Investors as well as businesses must have some predictability about what is going on in the world and how it might impact their future. While many of our problems can be traced back to bad decisions by individuals and corporations, our leaders in Washington have managed to multiply and exacerbate the situation. Washington’s over-burdening regulations, lack of leadership, lack of compromise and general dysfunction has created an atmosphere of uncertainty and distrust.



DJIA One-Year Chart
11/04/2010—11/04/2011

A new University of Chicago study by Scott R. Baker, Nicholas Bloom, and Steven J. Davis suggests that the level of certainty or uncertainty in governmental policy is directly related to economic growth. They show how the relatively consistent policies achieved in both the Reagan and Clinton administrations led to strong economic and market conditions. That is compared to a spike in uncertainty that occurred at the time of the second Gulf War—and has continued for ten years—and correlates to a long funk in the economy and financial markets. The theory is that when policy uncertainty is at its highest, economic growth is subdued. Following is an interesting excerpt, *“The most striking thing about recent stock-market volatility is that politicians are making the news. Policymaker actions and statements about bailouts, budgets and regulatory reforms are driving the stock-market gyrations. This is not normal. Before the financial crisis of 2008, the stock market usually moved in response to economic news. Strong GDP and employment figures would send the markets soaring. Poor corporate earnings would send the markets crashing.”* (Source: Measuring Economic Policy Uncertainty October 2011) If our leaders could get their act together to reduce uncertainty about government policies, growth would improve and be more sustained. Unfortunately, there is little conviction that will happen in the near future.

While the ever-lamented employment and housing problems continue, a rational look at the economy shows it is not nearly as bad as the media—or the volatility of the market—suggest. For the year 2010, there were 940,000 new jobs created. Through October, 2011 we have already had 1.256 million new jobs created. While housing continues anemic and prices have yet to improve, sales of existing homes are up 11.3% through September 2011 compared to 2010. GDP (gross domestic product) for the third quarter is expected to show 2.5% growth. None of these numbers are cause for celebration but they are consistent with other recent economic data which show a double-dip recession is unlikely and point instead to slow-and-steady economic growth.

Of course the cause of the most recent and violent volatility is the European debt crisis. That soap opera just continues to spin out new episodes and it is totally out of our control. While it appears an interim solution is at hand, political brinkmanship, public outrage, general European disunity and the scope to the financial problems promise that this crisis will be long-running. It will take a real fundamental change in European financial and economic policy to fully resolve their complex problems—more than the current knee-jerk reactions to the latest crisis.

Admittedly these are serious problems that are not about to disappear and the volatility is likely to continue. But the market is being buffeted more by existential crises than current economic conditions. The unpredictability of it all, against a background of slowly improving economic conditions, attractive valuations (i.e. low stock prices) and strong corporate finances simply highlights the futility of attempting to time this market. The unrelentingly negative atmosphere means that even a small positive surprise could shift the mindset of investors and result in more gains such as experienced in October. Investors must keep their long-term focus while always mindful of their overall strategy and risk exposure. For those of us with little patience for Drama Queens, life will continue to offer challenges.

Best regards,

Ted Ingraham

EGI Financial, Inc.
American Heritage Securities, Inc.