Economic Outlook

September 12, 2011

The economy remains weak and recent indicators have signaled a further weakening in recent weeks. The August NFP report continued the downtrend in jobs data for the fourth consecutive month, but the headline number of zero jobs growth for the month was the real market mover. A look into the details beyond the headline is even more alarming. First, the revisions to the June and July numbers were both downward from +46k to +20k for June and +117k to +85k for July. Also, the average workweek inched down by 0.1 during the month to 34.2 hours. This is a leading indicator and the decline is discouraging. Also, discouraging are the average hourly earnings for all employees which declined by 3 cents and the Temp Employment Help number is not showing improvement. Again, these are leading indicators and are not showing improvement.

Another area of concern is the recent downward revision in 2nd quarter GDP growth. It was changed from a less than impressive 1.3% to a weaker 1.0% largely on weaker export growth. Recently declines have been recorded in both Consumer Sentiment and Consumer Confidence as well. We view the odds of entering recession as 50-50. Ben Bernanke and the FOMC indicated that they will look to intervene if deemed necessary and have changed the September meeting to a two day vs. one day in order to discuss ways to bolster the U.S. economy. The bigger issue is likely what exactly can be done with interest rates at historically low levels and the FOMC has already indicated they plan to keep rates low through 2013.

The markets have gone through extreme volatility in August much of it related to the S&P downgrade of the U.S. debt amid the political debates over raising the debt ceiling. The political games are not likely to end with a presidential election in 2012 and President Obama's approval ratings at all-time lows. This could make it difficult to see any real solutions originating from Washington (business as usual). We do expect that some form of fiscal stimulus including a jobs bill will be passed but we think it may be hard to pass a significant bill in the current economic and political climate. However, the bottom line is the most important thing for the economy is to produce jobs and the related impact on housing. Both areas have barely stabilized and have not recovered from the meltdown related to the 2007 credit crises.

Things are not entirely negative however as the U.S. Leading Economic Index hit a recovery high in July. This is an important indicator as there has not been a single recession in the past 52 years that was not preceded by a decline in this index. There are many new forces at work in the markets that certainly impact the economy but we still believe this will be a reliable indicator. The yield curve remains steep and often inverts prior to recessions but we believe the involvement of the FOMC and the quantitative easing programs will prevent the yield curve from inverting even if the economy slips further.

The stock market itself is usually a leading indicator as well so perhaps the rapid decline in August is telling us something, but if not then the 20% drop in the S&P 500 from April to August (mostly over 3 weeks in August) is certainly discounting a lot of bad news. Also, the Advance Decline line confirmed the new price high in April and the AD line also made a new high in July. Typically, we find divergences between price and the AD line at important market tops or bottoms. Lastly, our long term model has yet to go to a sell signal despite the major decline so we are treating this as a buying opportunity and a correction in a bull market that is aging.

There has been a lot of technical damage done to stocks and this can only be healed by time and price. We did record some extremes in selling pressure and volatility. The 77 to 1 ratio of decliners to advancers on August 8 was completely unprecedented even including 1987 and 1929. Also, the 5 of 6 days with 4% moves had not been seen since 1932 (that actually marked the end of the 29-32 bear and beginning of a new bull market). The longer time wise that we stay past

the August 8 lows the more the market can improve. This does not mean a straight up affair as we expect September to remain choppy and news driven in terms of volatility.

We believe with rates staying low going forward that it will remain difficult to generate returns on fixed income portfolios. This coupled with the slowdown of an already slow growing economy will keep the equity markets challenging as well. We believe that focusing on more defensive sectors like utilities, health care and consumer staples can help shield portfolios from some of the risk. Also, focusing on well managed companies with higher dividend yields can add value to portfolios in difficult markets. The focus of the next year very well may be on conservation of capital more than appreciation of capital.

Darrell L. Jones, CFA
Portfolio Manager

Tom Busby is the founder, President and Chief Instructor of the Day Trading Institute in Mobile, Alabama. Tom has traded the S&P 500 every day (but six) since its inception in 1982, and is well known throughout the trading community. In 1996, he founded the Day Trading Institute to teach others his unique method of using the S&P 500 as the market leader for trading futures, options, equities and other securities. The Day Trading Institute teaches its students how to approach the market using technical analysis combined with risk management techniques. More information about Tom Busby and the educational and informational services of the Day Trading Institute may be obtained by calling toll-free 800.745.7444 or by email to info@dtitrader.com. Visit their web site at http://www.dtitrader.com.

DTI • 1555 University Boulevard South • Mobile, Alabama 36609

251-652-1555 • Toll Free: 800-745-7444 • Fax: 251-344-8587

RISK DISCLAIMER There is a very high degree of risk involved in trading. Past results are not indicative of future returns. DTI Partners, Inc. and all individuals affiliated with this site assume no responsibility for your trading and investment results. The indicators, strategies, columns, and all other features are for educational purposes only and should not be construed as investment advice. Information for futures trading observations are obtained from sources believed to be reliable, but we do not warrant its completeness or accuracy, or warrant any results from the use of the information. Your use of the trading observations is entirely at your own risk and it is your sole responsibility to evaluate the accuracy, completeness and usefulness of the information. You must assess the risk of any trade with your broker and make your own independent decisions regarding any securities mentioned herein. Affiliates of DTI Partners, Inc. may have a position or affect transactions in the securities described herein (or options thereon) and/or otherwise employ trading strategies that may be consistent or inconsistent with the provided strategies. In addition, all of our partners or affiliated companies are in no way associated with the proprietary information provided by the DTI Trading Method or software. Copyright 2011 DTI Partners, Inc. All rights reserved.