

**BCA Market Perspective ©
July 2010**

“Fear” Is Back

Burgess B. Chambers and Larry M. Cole

In the April 2010 BCA Market Perspective, it was noted that:

“Another factor that has become evident is the investor’s appetite for risk has returned. This is supported by the one-year bounce of equity markets since the market lows on March 9, 2009. Large cap stocks, as measured by the Russell 1000 Index, are up 72.9%, the Russell Midcap Index is up 94.2% and the Russell 2000 (Small Cap) Index is up 92.1%. In addition, we recently saw the Dow Jones Industrial Average hit the 11,000 level for the first time since September, 2008.”

What a difference a quarter makes.

As Greece’s debt rating was lowered to junk status in April, many investors saw this as the beginning of a larger problem in Europe, most notably Spain, Portugal, Italy and Ireland – spreading fear and uncertainty and the collapse of the Euro currency. The result was a widespread decline of all major equity markets. With belt tightening and tax increases on the agenda in Europe and a confirmed economic slowdown in China, the fear of a “double-dip” recession returned.

In addition, the Gulf oil spill had investors fearing that more regulations in both the energy and financial industries will deter growth in those sectors and increase unemployment. This came at a time when unemployment remains stubbornly high and new home sales dropped as a result of the expiration of the home buyer credit. Projected higher foreclosure rates and higher tax rates in 2011 have investors fearful that the consumer will have even less to spend, contributing to even slower growth.

The Fed’s recent actions in maintaining a near zero interest rate policy indicates a growing fear of deflation more than inflation, as the economic news points to a slow and prolonged recovery.

Diversification continues to be critical in managing the volatility and uncertainty caused by the return of fear. While equity markets were down significantly, bonds had an excellent quarter. Periods of investor fear have historically created excellent buying opportunities for those willing to look beyond the current confusion. BCA continues to focus on additional diversification opportunities in light of the current environment.

