



1720 E Calle Santa Cruz  
Phoenix Arizona 85022

**HUTCHISON INVESTMENT ADVISORS**  
Registered Investment Advisor  
Founded on a CPA Firm Background

E-mail: dave@davecfp.com  
602-955-7500  
Fax 602-955-1458

## November 2011 Investment & Economic Update

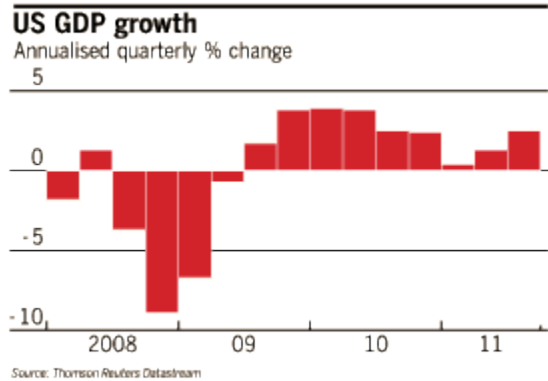
The S&P 500<sup>1</sup> had its best monthly gain in nearly 20 years in October. Yet it still has a long way to go to recover to pre-recession levels, and is not even back to its May 2011 recovery high. Sadly, stocks are still being held captive by the drama in Europe. There is little risk to the U.S. economy from the European mess other than to U.S. exporters if there is a widespread European Recession. The biggest risk is fear itself, which has kept worldwide stock valuations so low. Asia continues to be the growth engine, even with China's growth slowing to 8-9%.

**"Buffet goes on a \$20 billion stock buying spree"** – SEC filing on 11/4/11 shows that in the third quarter 2011 – the worst quarter for U.S. stocks since the financial crisis – "investor Warren Buffett went on a stock buying spree" (with valuations so low). [cnn.com](http://cnn.com) 11/7/2011

"S&P 500 Index companies are poised to report the **biggest annual sales increase on record**. Bulls say record gains in sales mean the economy is doing well enough for equities to rally after price-earnings ratios fell 20 percent below the six-decade average." Bloomberg 11/7/11 Article points out investors act like the world's coming to an end over the European crisis yet corporate America is posting record earnings and revenues. "S&P 500 earnings rose 16 percent or more for seven straight quarters and American gross domestic product expanded by the most in a year between July and September," Bloomberg points out.

**The European crisis** is driving up the U.S. Dollar, which hurts investor returns from foreign investments and hurts U.S. exporters. Money is again pouring into the safety of U.S. debt even at near-historical low interest rates. The Treasury basically can borrow at almost zero or negative "real" interest rates after even low inflation. In the early November sell-off even "safe haven" gold lost value: the safest investment was seen as U.S. debt and U.S. currency.

European actions still need refining and funding, but look like they may prevent a major crisis if Greece defaults.



After almost two years of recession followed by two years of slow recovery, **the economy has entered its expansion phase**, as total GDP is now above its 2007 peak. In Q3 2011 consumer spending was the strongest since Q4 2010, while business investment spending was the fastest in more than a year.

About 70% of companies **are beating earnings expectations - some by a wide margin** - with generally favorable guidance for the rest of 2011 and into 2012. As of 11/11/11 earnings growth for 454 of S&P500 companies that have reported combined with estimate of those not yet reporting is up 17.7% for third quarter, up substantially from the 13.1% estimate of 10/3/11. The blended estimated growth rate for 4<sup>th</sup> quarter is 10.5% (Data per Thomson Reuters)

In the U.S., the wealthy continue to enjoy some of the lowest tax rates in history and in the developed world. U.S. debt continues to have far more demand than available at Treasury auctions at historically low rates. U.S. debt continues to be seen as the safest debt in the world.

talking NUMBERS			
S&P PERFORMANCE			
AFTER CORRECTIONS, MILD BEAR MARKETS			
	3 MOS.	6 MOS.	12 MOS.
» 6/15/48 - 6/13/49	16.2%	22.8%	42.1%
» 9/21/76 - 3/6/78	15.4%	21.3%	12.6%
» Average	13.5%	23.1%	31.7%

SOURCE: S&P CAPITAL IQ, YAHOO

### Gains Follow Baby Bears?

11/1/2011- Sam Stovall, S&P Capital, discussed where history says markets may go from here.

While every market recovery is different, nothing can be predicted and more losses may occur, CNBC reports on a study of 8 "mild bear markets" like we had in the summer of 2011. The chart shows an example of two of the eight periods and the average for all eight periods evaluated.

-- Continued on Back or Next Page --

### **“Profits Top Estimates for 11th Quarter as Analysts See Rally”**

Bloomberg November 1, 2011 – “American companies are beating Wall Street profit estimates for the 11th straight quarter, enough to revive a bull market that analysts say will eclipse any rally in the past 12 years. While more than \$6.3 trillion has been erased from global equities since May, analyst forecasts imply the benchmark measure will post its biggest rally since the 1990s technology bubble, when the gain since March 2009 is included.” Another analyst says, “Valuations are very, very low relative to history, and you don’t have to make heroic assumptions on multiples to get reasonable returns.”

Article further points out that the S&P500 price-earnings ratio is nearly as cheap as at the bottom of the financial crisis in March 2009, Bloomberg data shows. “Fundamentals are starting to overcome a great deal of the macro issues.”

Bloomberg estimates overall S&P500 average earnings will advance another 10% in 2012 in addition to the potential of price-earnings ratios to increase to more historical norms once we get some stability in Europe – potentially resulting in a multiplier effect on stock values.

I do not recommend just index returns but funds that have historically consistently outperformed the “dumb” indexes or ETFs with positive Alpha (outperformance vs. risk taken). In addition I recommend alternatives without the risks of the stock or bond markets.

### **Record Cash on the sidelines**

Investors in cash and corporate cash levels remain at record levels with investors largely on the side with relatively low stock exchange volume which contributes to volatility. Eventually it is likely investors will return realizing the bargain prices and could drive up the market, probably after the largest gains have been made. While there are always potential market risks, the key is to be ahead of a potential “melt up” that is overdue based on low valuations and expected continued earnings growth.

### **Stocks now “at a good entry point”**

Marketwatch - 10/27/2011 Discussion with Art Hogan (Lazard Capital) who “thinks the stock market is poised to break out of its funk of wallowing in a pessimistic view of the U.S. and the rest of the world. Valuations look terrific. If you look at any metric you like, I think these are good stock prices.” He points out the market is valued for bad news that isn’t happening. “Remember we spent a good part of the summer talking about a double-dip recession.” (And instead we had continued GDP growth). He and many others point out that a very bad outcome in Europe is also already priced into the market. “This is a pretty good entry point for investors.”

### **“Most of the money is made in bear markets. You just don’t realize it at the time.”**

Marketwatch - 10/27/2011 - Discussion with Craig Hodges on how this is a good time to be getting in the market, not fleeing like so many investors have done. For those looking for long-term growth as opposed to be able to live off today’s low interest rates on fixed income investments, he points out the low valuations now and that is the best time to buy - not when markets are soaring.

He expects market volatility to continue in 2012 if the European issues do not get resolved. “Stocks are cheap on a fundamental basis, so I don’t think there is a lot of downside risk. I do think greed at some point will return and we will see the pendulum swing the other way and people flying back into the market.”

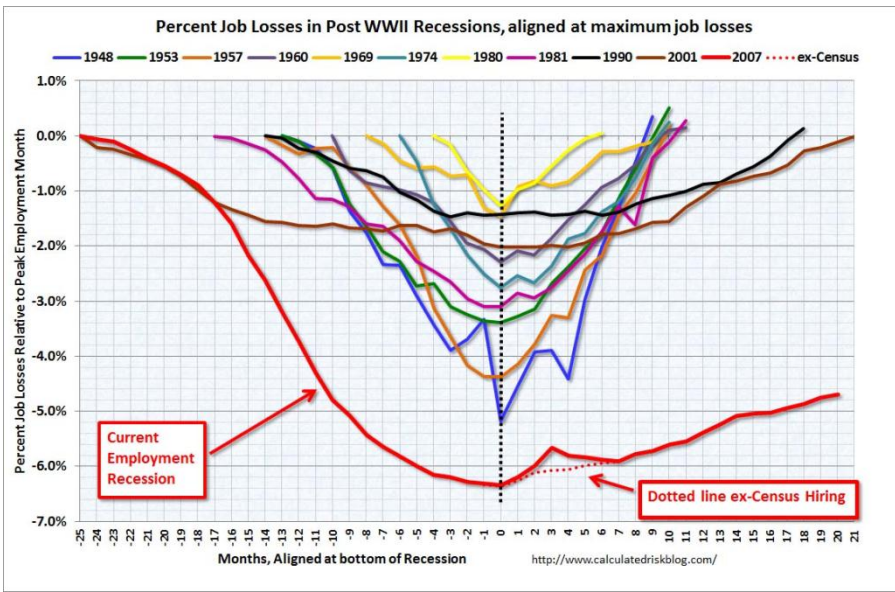
### **Jobs Growth Continues as Private growth offsets continuing government sector losses**

The Labor Dept. employer payroll data showed an upward revision of 102,000 more jobs created in August and September. In October 104,000 private sector jobs were created with broad hiring in most sectors, other than the loss of 20,000 construction jobs and the government sector lost 24,000 jobs. This measures number of employer jobs - not the number of employed individuals like the household survey.

The household survey includes farm and self-employed workers which had a gain of 277,000 jobs in October and an average gain of more than 300,000 jobs a month since August. Some economists believe this household survey is better than the employer survey at measuring changes in newer and smaller companies, and it includes the self-employed.

<sup>1</sup>Investors cannot directly invest in indices. Past performance does not guarantee future results.

The views and opinions expressed by Dave Hutchison, CFP are as of the date of the report, and are subject to change at any time based upon market or other conditions. The material contained herein is for informational purposes only and should not be construed as investment advice, since recommendations will vary based on a client’s goals and objectives. Information is believed to be from reliable sources; however, no representation is made as to its accuracy. All economic and performance information is historical and not indicative of future results. Hutchison Investment Advisors, Inc. is an Arizona registered investment advisor. Part II of Form ADV (Disclosure Statement) has been given advisory clients and is available upon request and is at [www.davecfp.com](http://www.davecfp.com)

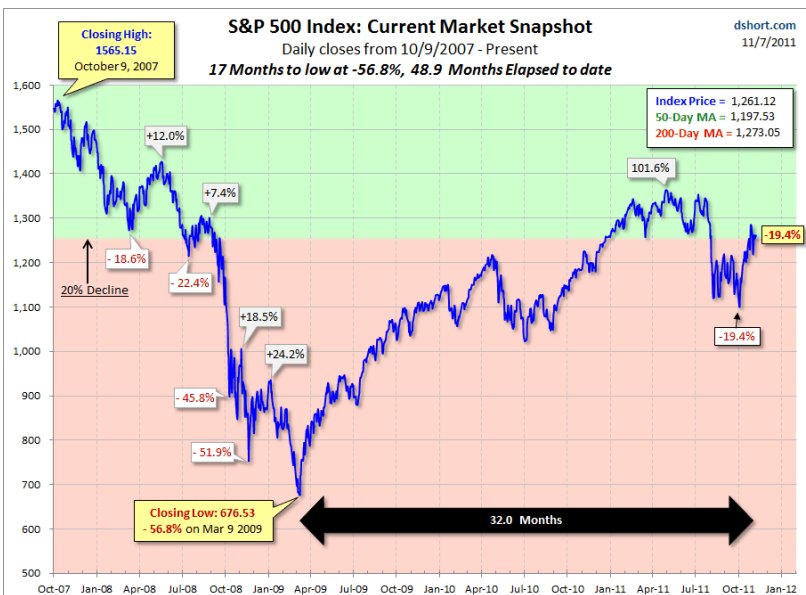


**Payroll Jobs Data**

While most independent economists agree the stimulus created or saved about 2 million jobs, it was not large enough for the magnitude of the Great Recession.

About 40% of the stimulus was tax cuts, the least effective way of creating job growth according to many economists.

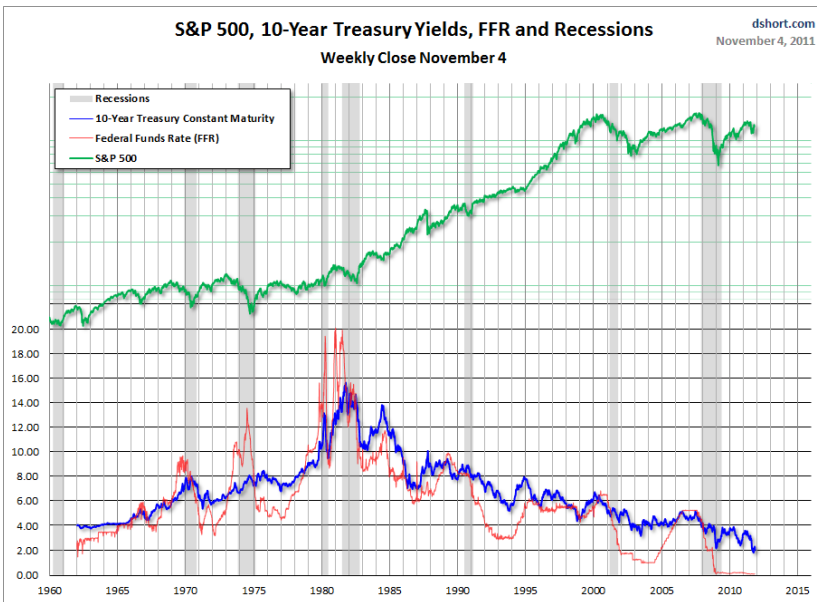
Today companies have record profits and cash - more demand is needed to increase jobs.



**S&P 500 from 2007 peak – November 7, 2011**

Back at the 2007 peak, the market was considered fairly valued, not in a bubble like in the 2000 tech bubble.

Corporate earnings are now at record levels, yet the market seems relatively cheap and has not even recovered to Spring 2011 highs, before the Summer decline.

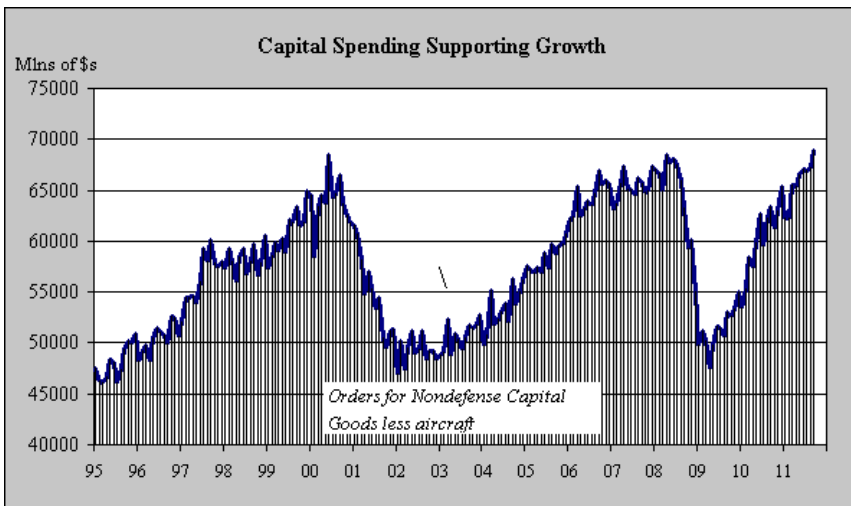


**Since 1960 S&P500 – vs. 10-Year Treasuries & Fed Funds Rate** which have been in about a 20-year decline in yield, which increases bond values.

Now near historical low interest rates of about 2% for Treasuries and 0% Fed Funds rate, they can't go much lower.

Therefore, today we have high interest rate risk as bonds lose value when yields increase. In the financial crisis of 2008 and with European debt crisis in 2011 the sharp drop in yields resulted from cash pouring into the safety of U.S. debt and the \$US currency.

**More Charts Back Side or Next Page**



spending prospects, have increased steadily over the past five months – Advisors Asset Management commentary 10/28/2011

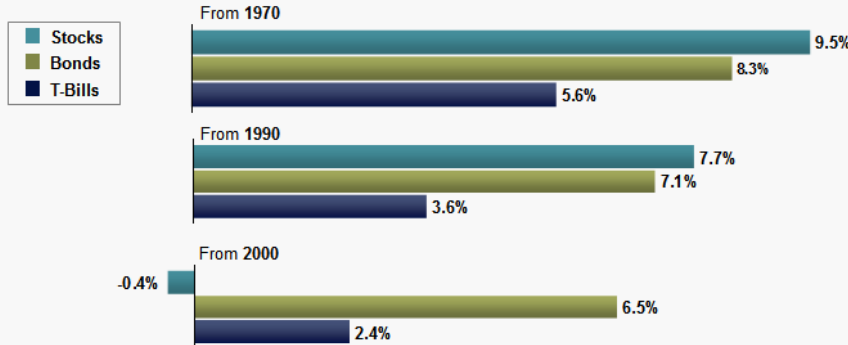
**Businesses continue to invest heavily in new equipment and software.**

Capital spending increased by a hefty 17.4 percent annual rate in the third quarter.

Thanks to robust profits and ample cash on hand, companies have the financial resources to underwrite spending gains and are likely to continue making up for the plunge in capital outlays that occurred during the recession. New orders for nondefense capital goods less aircraft, a reliable measure of capital

**Maintain Realistic Expectations**

Average Annual Total Returns (%)<sup>1</sup> (As of 9/30/11)



1. Source of chart data: Ned Davis Research, 9/30/11. Stocks are represented by the S&P 500 Index, a broad-based measure of domestic stock market performance, bonds by the Barclays Capital Aggregate Bond Index, and T-bills by a 91-day Treasury Bill Index. For the 1970-9/30/11 period, bonds are represented by a combination of 50% Barclays Long-Term Corporate and 50% Barclays Long-Term Treasury Bond Indices. Treasury indices are total return indices held at constant maturities. Indices are unmanaged and cannot be purchased directly by investors. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment. Past performance does not guarantee future results. Stocks and bonds are subject to different risks. Stocks are also different from fixed income securities in that (i) Government bonds and Treasury notes and bills are backed by the full faith and credit of the U.S. Government, and (ii) bonds, if held to maturity, may offer both a fixed rate of return and fixed principal value. Past performance does not guarantee future results. Due to ongoing market volatility, current performance may be more or less than the results shown in this presentation. The performance information does not show the effects of income taxes on an individual's investment. Taxes may reduce your actual investment returns or any gains you may realize if you sell your investment. An investor's shares, when redeemed, may be worth more or less than the original cost.

**Stocks have averaged a 9.5%/year total return since 1970, even with the large declines of 2000 and 2008**

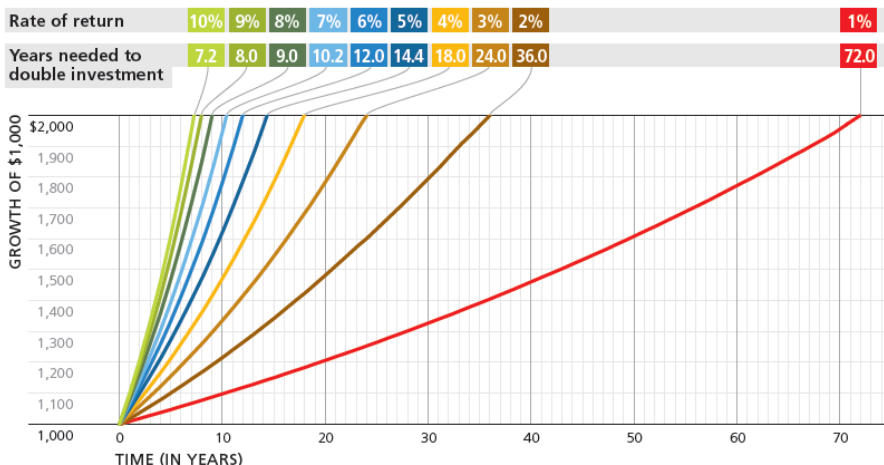
The chart is as of 9/30/11 after the large September decline and before the large gains in October 2011

Bonds & T-Bills benefited from declines in interest rates over the last 20 years down to today's near historical lows.

Bonds lose value if interest rates rise and increase in value if rated fall.

Current 90 day T-Bill rate is 0.00% as of November 2011 and has been 0% for about a year.

**How Long Does It Take to Double an Initial Investment?**



Note: Chart illustrates hypothetical investments' earning returns from 1% to 10% annually. This example does not predict or depict the performance of any Oppenheimer fund and is shown for illustrative purposes only. This performance information does not show the effects of income taxes on an individual's investment. Taxes may reduce your actual investment returns or any gains you may realize if you sell your investment. Past performance does not guarantee future results. Due to ongoing market volatility, current performance may be more or less than the results shown in this presentation. The performance information does not show the effects of income taxes on an individual's investment. Taxes may reduce your actual investment returns or any gains you may realize if you sell your investment. An investor's shares, when redeemed, may be worth more or less than the original cost.