



“Dow Surges 490 Points”

-Wall Street Journal, November 30, 2011

It appears that Santa Claus came a little early this year. Buoyed by news that the world’s central banks were banding together to make emergency funding available to Europe’s troubled banks, the stock market enjoyed one of its best days in years. The Dow Jones Industrial Average jumped by nearly 500 points, putting the index in positive territory for the year.

After a month of choppy volatility that has kept investors on edge, it was a welcome respite. It appears that—at least for now—the world as we know it isn’t ending. But given that our retirement portfolios are on the line, we should read headlines like these with a skeptical eye. The coordinated action by the Fed, the European Central Bank, the Bank of England, the Bank of Canada and the Bank of Japan *should* guarantee that, at least for the time being, we don’t have another 2008 “Lehman Brothers moment” where the financial system goes into cardiac arrest. That’s the thinking, at any rate.

But the action does nothing to address the excessive government debts that led to this crisis in the first place. Italy still has debts in excess of 120% of GDP, and much of the rest of the Eurozone is not far behind. And while we like the enthusiasm of policy wonks who suggest that Europe can grow out of its problems if only the countries implement the proper free-market reforms, we simply cannot share in this enthusiasm. Aging demographic trends in much of the Eurozone make the fast-growth of the post-World-War-II years next to impossible.

Suffice it to say, Europe has some very difficult choices to make—such as whether there should be a unified Europe at all.

All of this creates uncertainty, and markets tend to hate uncertainty. So, my advice is to expect a lot more choppy volatility. Hope for the best, but prepare for the worst.

As we enter the last month of 2011, we have a lot to look forward to in the New Year. We will have a presidential election, with all of the excitement and hope that a new election cycle brings. We will have an Olympic Games in London. (Britain’s Queen Elizabeth II will also be celebrating her “Diamond Jubilee” of 60 years on the throne for those looking for an occasion to celebrate.)

Regardless of what happens in the European sovereign debt crisis, life will indeed go on. European states have defaulted on debts numerous times over the centuries. The cycle of debt and default is, for better or worse, part of the rhythm of history. As investors, we simply have to be smart about how we allocate our funds and be prepared for whatever surprises the markets have in store for us.

Happy holidays!

Sincerely,

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