

## DEAR FRIENDS,

- Equities take a small tumble before the election and in correction mode since the election of 2012
- Fiscal Cliff developments drive market movements
- Flight to quality continues, with significant liquidity and lower yield on the horizon

The month of October seems a distant memory as timeframes are bifurcated between “before” and “after” the elections of 2012. October showed consistent volumes and organized trading, and ended up with small losses for the month, with annual gains still in place. Since the election, equity markets are down in correction phase levels. Liquidity in the fixed income markets remains strong, with 10 year treasury yields around 1.6%.

Index <sup>1</sup>	Oct'12	2012 YTD
S&P 500	-2.01%	12.24 %
Dow	-2.47%	7.16 %
NASDAQ	-4.89%	12.04 %
S&P 400 Mid Cap	-.86%	11.54%
Russell 2000	-2.62%	9.07%
MSCI EAFE (Intl)	0%	4.87 %

Commodity price <sup>2</sup>	10/31/12	1/1/12	1/1/11	1/1/10	1/1/09
Crude oil	\$85.68	\$98.98	\$73.71	\$79.74	\$95.98
Gold	\$1719	\$1566	\$1066	\$1097	\$833

\* Past performance is no guarantee of future results.



Christopher J. Mason  
President | Chief Investment Officer

7760 France Avenue South, 11th Floor  
Bloomington, MN 55435  
Tel 952-715-4926  
Fax 952-715-4927  
Chris.Mason@fontiswm.com  
www.fontiswm.com

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Indexes are unmanaged. An investor cannot invest directly in an index. Past performance is no guarantee of future result.

<sup>1</sup> WSJ Online 10/31/12

<sup>2</sup> Bloomberg Online 10/31/12

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With the election in our rear view mirror, politicians are turning their attention to the “Fiscal Cliff” on revenues and expenses for the federal government. [The uncertainty swirling around the Fiscal Cliff needs to be resolved by the end of this year.](#) If not, capital gains and taxes will rise significantly, thus increasing our likelihood of another recession. If not resolved before year end, the debt ceiling will be reached in late February of 2013. There is no question the stakes are high in obtaining resolution. With every movement in the talks, we will see daily swings in the equity markets, similar to the European debt crisis. The European debt crisis has not gone away and continues to point US equities one way or another. With the stakes this high even Washington is expected to compromise, and avoid the cliff. Never the less, until there is a plan, we expect to see daily equity prices reflect daily negotiations.

[Hurricane Sandy has caused Initial Jobless Claims to rise, breaking our 6 month trend of reductions.](#) This effect most likely is short lived, thus our attention will be focused on the October claim results. The underlying US economy continues to show slow, steady growth. We are now in the ever important 36 month growth cycle out of the previous recession. Last month we spoke about equity prices getting somewhat uncomfortable, which have been remedied with the recent down draft. From an economic standpoint only, equities are priced reasonable based upon current expected corporate earnings. If we don't see a resolution to the Fiscal Cliff, or if we see significant changes in fiscal policy effecting

corporate earnings, all bets are off. We like equity prices better than we did 30 days ago.

Current consumer sentiment is pointing towards a good holiday shopping season. Thanksgiving is coming earlier this year, increasing the number of shopping days before Christmas. The combination of positive consumer sentiment and a longer than normal holiday shopping season hopefully will bring in revenue for retailers. Retail inventories continue to drop, thus making it easier to post profits. By next month's edition of this letter, we should have a better handle on the direction of retail sales and profits.

Xi Jinping will soon be named China's next President. He is faced with running the world's second largest economy. There have been significant changes in China for the past 25 years. 10% year in year growth levels have open many doors to the Chinese people. Civil rights still remain a central concern for the rest of the developed world. As the economy has developed, even their manufacturing costs have gone up. Enter competition, and China is no longer the cheapest on the block. Staying competitive and driving the economy forward will be necessary evil for their new leader. China remains the US's second largest (to Japan) creditor, so China's success has a profound impact on our country.

We wish you a safe Thanksgiving, and a soon to be here holiday season.