

MARKET RETURNS					
	October	Year-to-Date thru 10/31/11		October	Year-to-Date thru 10/31/11
Dow Jones	9.5%	3.3%	MSCI EAFE	9.6%	-9.2%
S&P 500	10.8%	1.3%	MSCI Emerg Mkts	13.1%	-13.5%

October Since October's returns were so positive, let's spend some time celebrating. The Dow's 9.5% gain was the biggest percentage increase since 2002, and the largest monthly point gain (1,041) in history. The S&P 500's 11% gain is its best since 1991. Even November's first four days, after a setback on the 1st, have continued the uptrend. Maybe the year-end rally will continue until past Santa's visit and into 2012. As is obvious from the foregoing account, we are not a superstitious lot, though admittedly some vigorous wood knocking ensued while writing this month's Market Commentary.

Europe, Then and Now Were it not for the Dow's 276 point retreat on October 31, the records set would have stretched back into the mid-1970s. We find two ironies in this. First, in the mid-70's, European economic problems would have weighed little on US investors, who typically owned few foreign stocks, nor were overseas interests so heavily invested in U.S. companies.. For an example of this close to home, SOHIO was still an independent company in the 70s, not yet acquired by British Petroleum (now BP). Second, in the mid-70's the Greek problem likely would not have developed, because being a democracy bordering communist Eastern Europe, the US would have bolstered their economy. Times certainly change.

Bonds Over Stocks "The biggest gains in almost a decade have pushed returns on Treasuries above stocks over the past 30 years, the first time that has happened since before the Civil War", reported Bloomberg on Oct. 31st. With the 10-year Treasury yielding around 2% and the 30- year at 3.12%, bonds will have trouble repeating that performance. The only imaginable way for bonds to again beat stocks would be a total and sustained collapse of the equity markets, something akin to a new Dark Ages. If that happened, it wouldn't matter what investment assets you owned.

China to the Rescue A possible lifeline to Europe's woes might be China using their sovereign wealth fund to fund the bailout. Be careful what you wish for, as any aid from China would certainly come with strings attached. Among those would be a loan denominated in China's own currency, insulating them from loss should the Euro collapse. Another stipulation would likely be a tacit agreement to stop pressuring China to allow their currency, the yuan, to appreciate in value. This would help assure their continued strength as an export economy.

That said, it is doubtful the Chinese are willing to help. As the *Wall Street Journal* reported on Oct. 30th, "Jin Liqun, chairman of sovereign wealth fund China Investment Corp., made clear in London last month that CIC wouldn't offer handouts. 'The \$3 trillion in reserves are the fruits of the hard work of the Chinese people,' he said. 'We're willing to work with those European countries in distress for a better solution. But...we have to be accountable to the people.'...Mr. Zhu didn't go into details. But last month CIC's Mr. Jin said 'there are some things governments have to do to deserve the sincere support of the rest of the world,' listing reining in spending, dismantling the welfare state, and reforming 'sloth inducing' labor laws." Sounds like some political rhetoric we have heard in our own country...

November This may prove an interesting month. Economic reports continue to point to slow but steady economic growth in the US, but headlines from Europe will likely continue to come and go from the top spot. Closer to home, the 12 member Congressional "Super Committee" is working against a November 23rd deadline to submit their deficit reduction plan. As we said, an interesting month, but aren't they all?