



MEMORANDUM

To: PCA Clients

Date: August 9, 2011

From: Pension Consulting Alliance, Inc.

RE: Comments on Continued August 2011 Market Volatility

Summary

On Monday, August 8th, the broad U.S. equity market¹ declined by (6.7%). This large sell-off occurred just two trading days after a similar market slide in which the broad U.S. equity market declined by (4.8%) on August 4th. Investor uncertainty and rapid market swings continued to prevail today as the broad U.S. equity market gained 4.7%, despite being down by as much as (1.6%) just hours earlier in the day. Furthermore, the yield on the 10-Year U.S. Treasury Note fell from 2.40% to 2.20% today, a relative yield decline of (8.3%). As evident in recent market activity, especially today in which U.S. equities and U.S. treasuries increased in price simultaneously, global investors appear to have a wide dispersion in regard to their economic outlook. While PCA is not recommending any specific action at this time, we are continuing to monitor these market trends closely.


Discussion

For comparison purposes, out of the nearly 15,500 trading days since January 1950, there have only been 16 days in which the broad U.S. equity market has declined by (6.0%) or more. August 8th ranks as the 12th largest one-day loss for the broad U.S. equity market during this time. Furthermore, out of the over 12,300 trading days since daily data for the 10-Year U.S. Treasury Note has been available (est. January 1962), there have only been 9 days in which the 10-Year Treasury has seen a relative yield decline of (7.0%) or more. The relative yield decline of (8.3%) that occurred today, August 9th, ranks as the 3rd largest since 1962. Additionally, for the two-week period ending today, August 9th, the yield on the 10-Year U.S. Treasury Note declined from 2.99% to 2.20%, a relative yield decline of (26.4%), and the 3rd largest since 1962.

From the end of June through August 9th, the broad U.S. equity market has declined by (11.2%), which places the year-to-date figure for 2011 at a (6.8%) loss. Although the CBOE VIX (Volatility) Index rapidly increased from 16.52 (6/30/11) to 35.06 (8/9/11), PCA doesn't believe that it is likely to approach the 80 mark as it did during the global financial crisis.

Over the last couple of weeks, there have been dramatic changes on both the political and investment fronts. Although the United States government was able to raise the debt ceiling and provide a basic outline for future debt reduction efforts, this agreement was not sufficient enough to avoid a credit rating downgrade from AAA to AA+ by Standard & Poor's. Additionally, despite the downgrade, yields on U.S. government securities have fallen, suggesting that global investors are worried about future economic growth and are thus taking risk off of the table.

¹ S&P 500



Investors appear to be focused on macroeconomic and governmental policy issues, rather than the underlying fundamentals of securities. One of the primary opinions that is being touted by financial professionals and journalists is that in developed nations, we are facing a period of slow, and possibly stagnant, economic growth. Although the European Union has made several advancements in regard to sovereign debt issues, there are still many unresolved challenges and thus investor uncertainty is still prevalent. Similarly, the United States continues to struggle with high unemployment and the issue of government debt is of particular importance.

If the idea of slow, or flat, economic growth for developed nations continues to become more and more widespread, PCA believes that investors may be in store for a new equity trading range. For the S&P 500, this trading range is likely to be somewhere in the neighborhood of 1050 and 1300.

PCA will continue to monitor these market trends closely and provide additional viewpoints on any material issues as they arise. We look forward to discussing these matters with you further within short order. Please do not hesitate to contact your PCA Consultant if you have additional questions or comments.