



## Quarterly Market Update - Q3 2012

First and foremost, the financial markets have been trading in a sideways channel and have not experienced sustained appreciation since 2000. The first major market correction occurred from 2000 to 2002 and hit the tech sector. Then the real estate bubble burst in 2005-2006, followed by the financials in 2007. The market situation has not changed since 2007 when the global financial meltdown began. Globally, the central banks (our Federal Reserve, the European Central Bank and others) have pumped about 10 trillion dollars into the financial markets worldwide. Even with this unprecedented amount of money printing, the US market, as defined by the S&P 500, is still down more than 15% since 2007.

The US is in the 2nd quarter earnings season. Earnings and revenues have been significantly reduced. While about 60% of US companies are beating these reduced earnings, the outlook is not favorable. Companies are still struggling to beat these lower numbers for both revenue and earnings. Our best estimate at this point in time, is a recovery sometime between 2016 - 2022. Worldwide the markets are slowing at the macro level and the Eurozone is already in a recession. Within the next three years, MCS fully expects a recession in the US.

If Central Bankers continue to pump money into the marketplace, that liquidity will allow asset prices to rise *temporarily*. The stage is being set for world markets, including the US, to go DOWN double digits and then bounce up to high single or double digits. What this means for you is that MCS will have opportunities to obtain double digit returns with LOW risk. Due to exceptional money printing, this enormous amount of liquidity will allow both long and short positions in such areas as bonds, gold, oil, and in certain sectors of the equity markets. These opportunities will develop over the coming months. Most other investors will continue to ride the market up, not lock in gains, and then see those gains dissipate.

While MCS remains cautious of the market in general, we are confident situations will materialize to capture profits. Protecting portfolios and growing them prudently is still of utmost importance. Regardless of the market still being down from 2000 or 2007, MCS has been able to obtain triple digit returns within that cycle while simultaneously avoiding every down turn. We plan on continuing both of our objectives, protection and appreciation, over the coming months and years.

As always, please feel free to contact us with any questions.