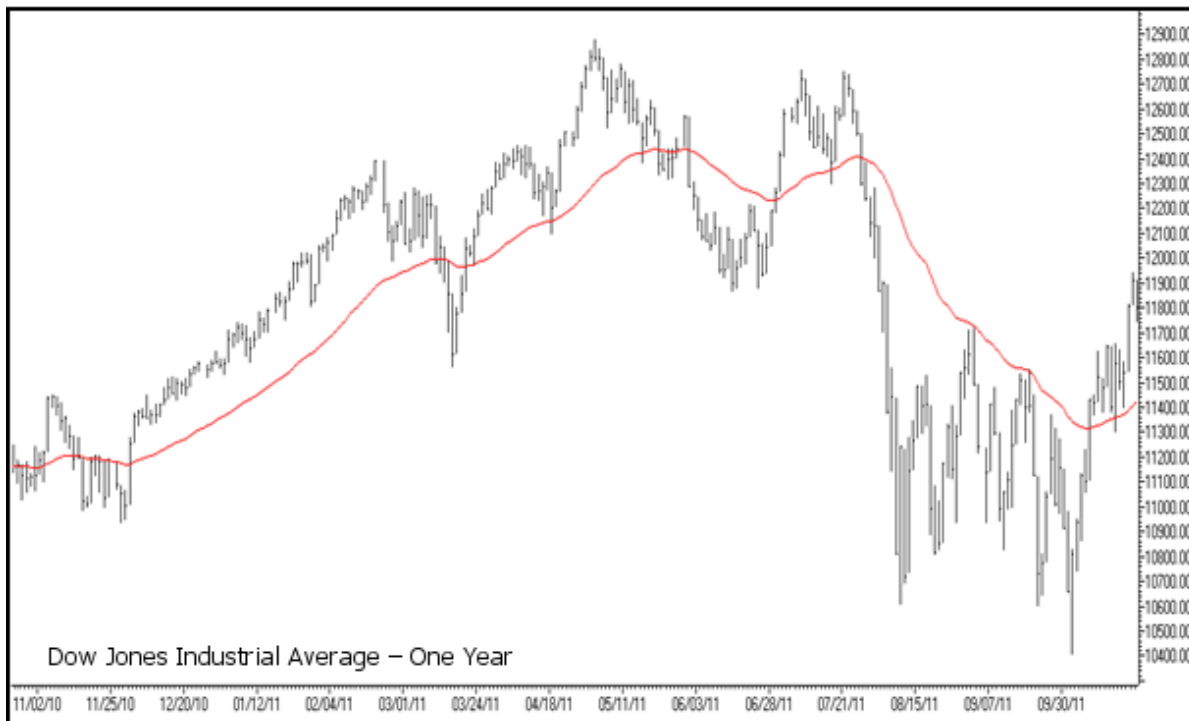


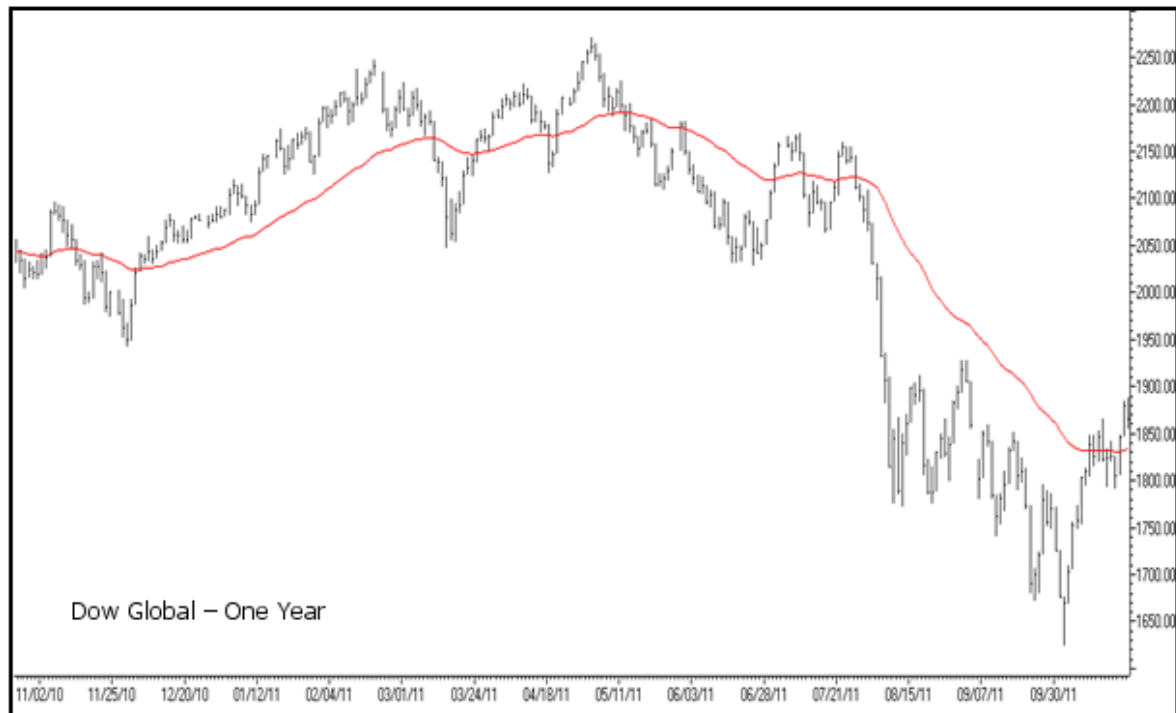


MKG Financial Blog

'Tis the Season to be—Scary! October 25, 2011 by MKG Financial Group

After a recent major move in the global stock markets to the upside, we heard sounds that perhaps the markets are now in need of a rest before moving even higher. And while we would definitely concede that the markets have made a strong *technical* rise out of their third quarter trading range to finally hit new *higher highs*, there appear to be cracks forming that may indicate that the world markets are actually running out of steam. In reality, the cracks aren't new, but investors were just basking in false hopes—especially in putting so much faith in Europe quickly solving its problems.





The reason for making this observation when the accompanying charts (Dow Jones Industrials and Dow Jones Global) show a definite break to the upside is that we are now getting third quarter earnings reports that are not only disappointing, but are being followed by truly major declines in the accompanying stocks of the underlying companies. Netflix, 3M, Cummins and AK Steel Holdings to name a few, are falling this morning.

In addition, on the economic front, there is a scary absence of any real news here in the United States regarding the U.S. budgetary problems and how we are going to address our own situation—yet the clock is ticking and in November we will once again begin to watch the *DC Dance* as politicians waltz their way to nonconformity.

The U.S. problems for now are, of course, easy to ignore while all attention focuses on Europe. Meanwhile, investors wait to hear how Greece and the Euro are going to be saved—an announcement that we believe will continue to be postponed for lack of EU consensus—and European political commitment. This occurred today; let's be honest--could it really have been a surprise? Yet it is all one is hearing in the news. *Déjà vu* of the United States in July and August.

So Europe will go back to the drawing board. Remember, for many of the EU countries in the Eurozone, even after an agreement or understanding is brought together, the parliaments of the individual countries will need to place their seal of approval on their country's backing and this may well be the barrier for bringing a package together. Meanwhile, the underlying banks and countries in financial straits are getting weaker and European confidence and growth is wilting.

In addition to the European issues, there are still issues to resolve in the United States; our problems will resurface—and may well bring about what we are going to call “the sobering reality” that we may all be suffering from similar illusions and in need of a similar cure. This will be a long-term fix, not a short-term recovery.



And while nobody is looking, watch over your shoulder at China. There is something there too that doesn't seem quite right. The old adage "where there's smoke, there's fire" may actually become something of a reality should problems in China actually begin to surface in the news. The real estate market in China definitely appears to be in trouble; we'll see what transpires, but it doesn't sound good. The accompanying chart on E-Home Holdings, Ltd, a Chinese real estate developer, provides a look at what some investors think of this sector for the Chinese economic outlook.

Could be that there is too much real estate to choose from—an oversupply problem—especially now that the U.S. is considering giving visas to people outside the United States if they will come to this country to buy our empty houses (minimum home price: \$500,000). What a wonderful consideration—a win-win situation for America. Not only will we cure our housing problem by pushing our home ownership overseas, but it could also beef up the number of people in the 1% highest tax bracket and increase revenue for the country, as well. Thank you Warren Buffett.

When problems begin to be addressed, it will be a slow process. But first things first. The main point for this period of time is that we may end up trading a *Merry Christmas* this year for a *Happy Halloween*. Scary.

~Mark Gaskill, Chief Investment Officer

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