Portfolio Commentary: 3Q 2011

It was hard to hide from some of the big headlines which moved the markets during the third quarter.

- Economic statistics pointed to lower growth in the US, Europe, and China, and stock market averages fell.
- Political brinksmanship in Congress over the debt ceiling caused great uncertainty and drove markets down.
- Unrest led to military action in Libya, adding uncertainty to world oil markets.
- Greece continued to be surrounded with rumors, and weak promises of support from EU nations, which added instability in markets and stoked investor's fears.

According to Lipper Analytical Services, the average US Stock fund was down 17% in the quarter, and average Global stock funds were down 20%. Market traders proved that computer-driven trades could cause 100+ point moves in the Dow Averages for many days in a row. On September 30, the Dow closed at 10,912.

As we write this, the Dow has once again closed above 11,000 as traders have shown new optimism about a Greek bailout, and US economic growth.

We are looking for reasonable returns over the long term, and continue to seek investment diversification while this phase of volatility plays out. While the economy may not be robust, many companies are using stockpiled cash to buy back shares, or to maintain solid dividend programs.

Short –term bond funds, our preferred sector, have drifted sideways to lower. Long Term Government bonds, however, continue to outperform. This is driven by a perceived "flight to safety" in the US dollar and the Treasury guarantee. We have avoided long term Government bonds as we believe they present a host of risks related to future inflation and higher interest rates. If/when a rate change occurs it will prove painful for these investors.

Our best to you,
Tom, Bob, Chuck, and George.

102G State St, Newburyport, MA 01950 * www.resolutefinancial.com * 978-463-8771