



# Perspect • ive

## On The Horizon

Despite all of the rain, our foliage has been beautiful in the northeast this fall. Here's hoping you were lucky enough to spend some of your time outdoors enjoying it.

Over the course of the next month, as the year winds down, we will be attending the Gabelli Best Ideas Conference on December 14th at the Grand Hyatt in New York. More than twelve companies in various industries will be presenting at the conference. There will also be one-on-one meetings with the company management teams.

As the holidays approach, we want to wish each and every one of our clients, as well as their families, a safe and happy holiday season.

In conjunction with the markets, we will be open for a majority of the holiday season; we will be closed only on Monday, December 26th.

Be safe this holiday season and we look forward to a promising New Year! ■



## Third Quarter Review

By Joseph P. Biondo

The global economy and equity markets had plenty to worry about during the third quarter. At times, the bad news was overwhelming – Standard & Poor's downgrade of U.S. credit, sovereign debt problems in European countries, weak U.S. economic and employment data, a housing market still mired in a slump and the ongoing impact of Japan's disasters on global growth.

We attribute the current crisis to excessive debt and overspending at the government level. Consumer confidence has plummeted following the U.S. downgrade and uncertainty in Europe. Governments are being forced to address many years of poor fiscal management and investors are reacting with fear and trepidation. Increased taxes and lower government spending will gradually improve government balance sheets but will come at the expense of slower global economic growth.

### Navigating the Noise

As investors, it is important to step back from the daily investment noise. These issues are important and will certainly impact the market's movements in the short-term. However, by focusing too much on short-term issues, many investors can lose sight of longer term trends that will have a much greater impact on their financial future. Long-term investors should be optimistic. Corporate earnings at many U.S. companies have recovered from recession lows and have reached near-record levels. Many companies have fortified their balance sheets, built up cash, strengthened their competitive positions and have access to credit.

In our view, a recession is not in the cards. Third quarter GDP grew at a 2.5% rate, which was an increase over the first two quarters of the year. Home prices, in our opinion, also appear to have bottomed and some markets have



even seen modest increases in home values. While unemployment remains high and growth sluggish, we do not see a contraction over the next 12 months.

Earnings for publicly traded U.S. companies have been solid on the whole and have been broad based across industries. Technology, health care, industrial and even automotive companies are making money. For the second quarter of 2011, corporate profits accounted for 10.1% of GDP, the highest level in the 64 years that the Bureau of Economic Analysis has been tracking this data.

The best measure of corporate cash is U.S. nonfinancial corporations' liquid

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# Third Quarter Review (continued)

assets. For the second quarter, this reading increased 19.2% versus the prior quarter. Over the past two years, corporate cash has increased by \$700 Billion to over \$2 Trillion – the highest level ever recorded. Clearly, companies have a lot of dry powder to use when this recovery finally picks up steam.

The Federal Reserve is attempting to spur growth by holding interest rates at or near 0% for the next two years. Their intent is to discourage savings and encourage investment. There is an estimated \$7.4 Trillion in cash on sidelines, equal to 50% of U.S. GDP. Money market and short-term CD rates are yielding next to nothing and U.S. Treasury securities are often yielding less than 2%; both most likely will be outpaced by inflation.

In comparison, stocks' earnings yields (8.3% as of 9/30) are nearly 4x the average fixed income yield. The S&P 500 is now trading at a multiple of 12x

earnings, versus an average of 16.5x over the past couple of decades. That's nearly a 30% discount to historical norms while "safer" investments are offering little or no return.

*As investors, it is important to step back from the daily investment noise*

Volatility has been high this year, particularly during the third quarter. More than 3 in 10 trading days so far this year have seen daily swings of 1% or greater, while there have been swings of 2% or greater about every two weeks on average. Volatility is likely to remain elevated and there is little differentiation in the type of companies that can get beat up.

These situations often present opportunities to invest in high-quality companies at very attractive valuations.

## Where We Stand

Earnings season is complete and we are pleased to report that most of our holdings remain in excellent shape. We are favoring larger companies that are not overly dependent on the U.S. and European economies and have high-quality balance sheets, strong brands and excellent management. Many of the sectors emphasized in our portfolios should benefit from U.S. manufacturing growth, capital spending in technology, health care and the continued build-out of global infrastructure. ■

**Sources:** Golub Group, Fidelity, The Hartford, CNNMoney, Monument Wealth Management, Yahoo Finance, standardandpoors.com, National Financial Services, Bureau of Economic Analysis

"I've..."

## Morgan Stanley

**O**n September 13th and 14th, Scott Goginsky attended the Morgan Stanley Global Healthcare Conference at the Grand Hyatt Hotel in New York City. Over 120 companies in the healthcare and biotechnology sectors presented at the conference. Many of the healthcare companies in our portfolios were represented, including MAKO Surgical, Edwards Lifesciences and Illumina Corp. Several exciting new technologies and drugs were introduced during the presentations.

Overall, the conference reaffirmed our belief that the Healthcare sector has promising long-term growth prospects. Besides new products, the global economy has been showing increasing demand for advanced treatments, especially in the emerging markets of China and Southeast Asia. Healthcare purchases are also largely non-discretionary, therefore, we feel provide some safety in down markets. We continue to view Healthcare as a core position in our portfolios. ■



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 march for babies®  
**WALKING TOGETHER  
 FOR STRONGER,  
 HEALTHIER  
 BABIES**™



## Spotlight On: March of Dimes – A Celebration of Life.

On Sunday, October 2nd, 2011 at 11:00 a.m. more than 300 participants walked in the Delaware River March for Babies at FireFly Field in Matamoras, PA. It was a cold and wet day, but spirits were still high. Many people brought their friends, families and pets to help the March of Dimes continue to invest in research to find the answers to premature birth and provide comfort and information to families who are affected.

Featuring a heartfelt story of their very own, Scott and Kari Goginsky shared their experience with the premature birth of their twins – Jack and Henry.

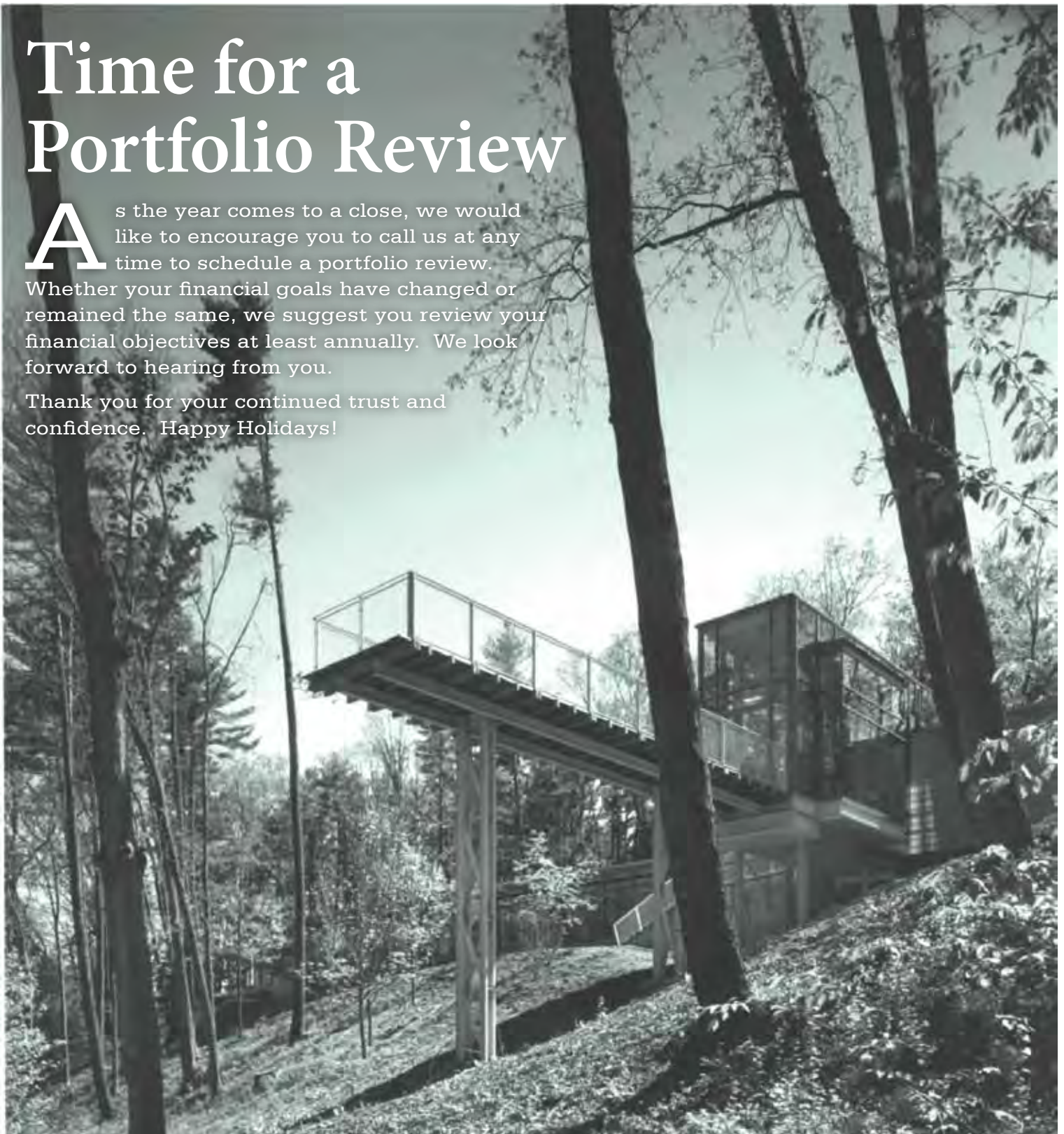
Biondo Investment Advisors is pleased to announce that this year's walk not only raised over \$40,000, but was also a great way to celebrate the future of our children ■

# Time for a Portfolio Review

**A**s the year comes to a close, we would like to encourage you to call us at any time to schedule a portfolio review.

Whether your financial goals have changed or remained the same, we suggest you review your financial objectives at least annually. We look forward to hearing from you.

Thank you for your continued trust and confidence. Happy Holidays!



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