DELTA
FINANCIAL ADVISORS
Investment Counsel

October 2012

IN THIS ISSUE

Economic Comments

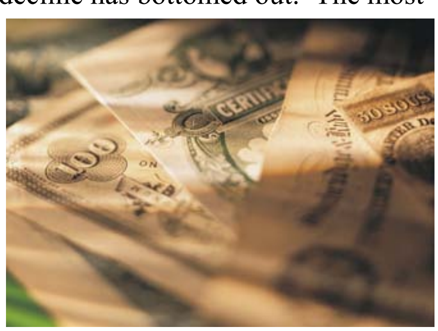
After announcing another round of monetary easing at its September meeting, the Federal Reserve's efforts to support the economy continue. The U.S.'s central bank revealed its plan to maintain near-zero short term interest rates into the middle of 2015, 9+ months longer than previously targeted.

Fed Chairman Bernanke further pledged that this easy money policy would continue "for a considerable time after the economic recovery strengthens." By extending this easy monetary policy far into a stronger economic recovery, the Fed made a sharp break from prior practice. As part of its ongoing effort to rein in longer term borrowing rates, the Fed pledged to continue its buying of mortgage backed securities.

To put the Fed's security purchases in better perspective, the central bank has increased its holdings of Treasury securities by almost 1.3 trillion dollars since October 2008. The bank's efforts appear to be focused on pushing investors into higher risk assets. Adding to Fed concerns has been the deceleration in global economic growth. In recent days, the International Monetary Fund has reduced its expectations for global economic growth for both 2012 and 2013.

Closer to home, the economic news has been more mixed. September's unemployment rate unexpectedly fell to 7.8% - the lowest level since January 2009. Providing additional support to the jobs number has been a rebound in various consumer confidence surveys as individuals are apparently feeling more optimistic about the upcoming year's job prospects. This reduced pessimism has also been demonstrated by strengthening sales for new cars and retail stores.

Additionally, signs continue to mount that the housing sector's decline has bottomed out. The most recent Case-Shiller index showed a year over year gain of 1.2% with 3 consecutive months of price increases in the survey's 20 cities. On the GDP front, and with consumer spending showing some modest increases, growth might approach 2% by year-end - which would be an anemic recovery compared to any prior post-war economic cycle. Nonetheless, this anticipated advance would be an improvement over the even more tepid growth of 1.6% realized in the year's first half.



Looking ahead, increasing attention is now being focused on the implications of the so-called "fiscal cliff" which is set to arrive on January 1, 2013. Under the Congressional budget deal from last year, a sharp increase in federal taxes

(Continued on page 2)

Economic Comments continued from cover

is slated to occur along with meaningful mandatory cuts in Federal spending. The near term concern is that these actions will cause the economy to fall off a proverbial cliff. By reducing the money available to consumers (through increased taxation) and reducing government outlays (as a result of the mandated reduction in government programs) the already anemic economy could be tipped back into recession. In fact, some respected analysts, especially the chief of the Economic Cycle Research Institute, are proclaiming their belief that the U.S. economy has already started to contract.

While we share the concern over the cliff's near term ramifications, we are much more positive about its longer term fiscal implications. Simply put, the Federal government's spending levels and deficits are unsustainable. A sharp reduction in the U.S.'s entitlement programs is inevitable if the country is to put its fiscal house in order. We believe that a realignment of spending and revenues is long past due and must be enacted imminently to avoid fiscal disaster.

More encouraging news from Europe was delivered last month with the European Central Bank winning support to buy large amounts of government bonds to relieve investor pressure on the most debt-troubled countries. Effectively, this move spreads responsibility for repaying national debts to the eurozone countries as a whole.

By taking this action with Germany's tacit approval, Europe moved a big step down the road towards a closer economic union with centralized control over government spending and economic policy rather than the existing collection of nation states. While not solving the structural problems behind the euro, this action buys additional time for the continent's political leaders to address the core underlying problems.

As we look forward, the economic landscape remains daunting. In addition to the fiscal cliff and ongoing European/euro saga, there are the heightening Middle East tensions along with the divisive fall election. We remain heavily concerned about the near term obstacles but believe that the greatest pitfalls may yet be avoided if both politicians and voters will make the necessary and hard decisions.

Analyst Corner

During difficult economic times, ownership of hard commodities can act to reduce portfolio risk. The challenge is that commodities pay no dividends and actually cost money to own due to storage and insurance costs. Exposure to this asset class can also be gained through the ownership of actual commodity producers such as BHP Billiton PLC (*NYSE: BBL*). In fact, this company is one of the largest developer and producers of commodities with operations throughout the globe. Company management shows extreme discipline in allocating capital where individual projects cost billions of dollars and whose lifespan are often 30+ years. BBL has a diversified portfolio of products and a proven track record of returning capital to its owners. As such, in this time of substantial geopolitical turmoil, the addition of BHP Billiton could be an attractive portfolio addition.

Market Comments

The financial markets are receiving enormous shots of adrenalin from the world's biggest central banks in the form of extremely accommodating monetary policy (read, lending). Although the U.S. economy is, at best, tepid and unemployment has remained persistently above 8% in recent months, the S&P 500 closed out the quarter up 5.8%. Overseas, the Euro Stoxx 50 finished out the period up an even more impressive 8.4%. Looking at individual market sectors, the hereto unloved telecom sector has led the market higher with gains of almost 26% for the year. The market laggard has been the prior beauty queen, the utility sector, which has inched out a far more modest gain of 4%.

However, with the broader U.S. market having advanced by 16% this year, some warning signs are flashing. Defensive oriented investors are currently willing to pay substantial premiums for high dividend paying stocks. With the most recent market upswing, the market's cyclically adjusted price/earnings ratio is now running around 22 - one-third higher than its long term average. Also, and for the first time in 11 quarters, the S&P 500's constituents are expected to show an overall decline in quarterly earnings. The key factors in the anticipated earnings shortfall are, the anemic U.S. economy, the European recession, and the much slowed Chinese growth. When these factors are coupled with the looming fiscal cliff, the impact on corporate earnings has been toxic.

Additionally, the CBOE Volatility Index, often called Wall Street's fear gauge, is close to the record low levels last seen in the summer/fall of 2007. The index's current readings reflect investors' wide spread belief that short term market volatility will remain very low. Another warning sign has been flashing recently with the Dow Jones Transportation Average Index being down 2% for the year as compared to the Dow Jones Industrial Average which has advanced by close to 10%. Followers of the Dow Theory believe that the transportation sector constitutes an early warning system for the direction of the broader market.

Largely offsetting the aforementioned concerns is the simple fact that many, if not most, investors remain very nervous about the recent market upswing and continue to question the current situation. Since the market's 2009 lows, investors have continued to show concern over the stock market with investors removing $1 from stock mutual funds for every $7 of additional monies being placed into fixed income.

Substantial investor concerns and the upcoming poor earnings season have been overshadowed by the ongoing efforts of the Federal Reserve and other central banks to inflate the value of other assets. We remain uncertain where the markets will take us in coming months. Our only certainty is that having a well designed portfolio that is geared to an individual's specific circumstance remains more important than ever.

Performance as of 9/30/12

	Close	**Month**	**YTD**	**1 Year**
DJIA	13,437.13	2.75%	12.19%	26.52%
S & P 500	1440.67	2.58%	16.43%	30.18%
NASDAQ Comp.	3116.23	1.61%	19.62%	29.02%

	Quarter end yield	**Prior Year end yield**	**Yield 1 year ago**
10 yr. U.S. Treasury	1.64%	1.87%	1.92%

Planning Thoughts

Barring Congressional action before year's end, a brave new world for federal taxes will arrive on January 1, 2013. Taxes will be going up on a number of fronts: 1) the expiration of the Bush era income tax cuts; 2) a 33% increase in capital gains taxes to a 20% marginal rate; 3) the elimination of the preferred treatment on qualified dividend income (i.e. dividends will be treated as ordinary income); 4) the implementation of a 3.8% tax on unearned income to help pay for Obamacare; and 5) the resetting of the estate tax exemption to $1.0MM.

All of these changes will result in a substantial increase in the tax burden for higher earning individual taxpayers. These tax law changes encourage investors to push forward any potential stock sales into 2012 to avoid 2013's higher rate. Additionally, taxpayers who can shift income forward into 2012 should give serious thought about doing so. In short, if there is flexibility as to the timing of realizing either capital gains or earned income, it would be prudent to sit down with your tax advisor before year-end to determine what moves can be taken to possibly lessen your overall tax burden.

Partners

Gerard A. Plauché, CFA

Clifford F. Favrot, CFA CFP™

Ainsley D. Bishop

Frank A. M. Williams, Emeritus

Operations Manager

John T. Egnatchik

Office Manager

Angelle M. Verbois

Contact Us Toll Free:
1-888-522-9019