



# PRATT, KUTZKE & ASSOCIATES, LLP

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## Another Wild Ride

The second quarter of 2010 saw a return of volatility in the stock market, unfortunately resulting in widespread declines. We remain optimistic, however, and view the recent happenings as part of the typical market correction cycle that has occurred during nearly all recovery periods. We will touch briefly on some of the major events that occurred during the last three months:

The April 20<sup>th</sup> drilling rig explosion in the Gulf of Mexico resulted in the worst oil spill in American history. Oil continues to flow into the Gulf and clean-up efforts are having varying levels of success. The full extent of the economic ramifications will remain unknown for some time. Initially, the largest impact appears to be losses in tourism and fisheries. Long-term, however, the environmental damages could wreck many local economies in the Gulf region.

On May 6<sup>th</sup>, the market experienced a 'flash crash' that saw the DOW drop by nearly 1,000 points in a matter of minutes. For those who happened to be watching the market on their TV or computer, it was a scary experience. For everyone else, it had little impact; the market regained most of the lost ground before closing that day. Regulators have not announced what caused the crash, though the consensus seems to be that it was the result of a trading error and/or computer malfunction.

Fears of the possible global impacts of the European debt crisis seem to have been a primary cause of the recent market declines. The European bail-out package granted a reprieve that will likely last a year or two. By that time, hopefully some additional solutions will have been found or the troubled Euro zone economies will have picked up enough to deal with the issues. Even though concerns still exist, policy makers in Europe appear willing to do everything possible to prevent a meltdown.

Home sales in the U.S. have taken another dip, though we believe this is primarily due to the expiration of the home buyer tax credits. The credits caused many potential buyers to move up their home purchases so they could take advantage of the credits. This created a lull in demand that will take a few months to pick up again. In general, housing could take years to reach its pre-recession highs – primarily because the peaks were artificially high. That said, with mortgage rates at their lowest level in more than five decades, we anticipate demand picking up.

Overall U.S. GDP growth is estimated to be about 3.5% this year, which is a respectable gain and better than the last two recoveries in 1991 and 2002. Even with the recent rough patch, a relapse into recession is not likely. We anticipate above average volatility to remain for some time, but expect continuing improvement over the coming months in both the markets and the economy.

As always, please contact us if you have any questions, comments or concerns.

Regards,

*The PKA Team*

## Market Update

A quick glimpse at the market for the second quarter and year of 2010:

	<u>Q2</u>	<u>2010</u>
DOW:	-9.97%	-6.27%
NASDAQ:	-12.04%	-7.05%
S & P 500:	-11.86%	-7.57%

## 2010 Tax Update

A slate of tax deductions lapsed for 2010—among them deductions for college tuition, teachers' supplies, tax free IRA payouts to charity and others. Measures to revive them seem to be stuck in the Senate at the moment.

The estate tax is still in limbo as well. Lawmakers seem split on the size of the exemption (\$3.5 million vs. \$5 million) and the rate (45% vs. 35%). It seems likely that a compromise will be reached yet this year as neither side wants to see the exemption fall back to \$1 million in 2011.

The Bush tax cuts are also set to expire. A long-term extension seems unlikely to pass this year, though we may see a one-year extension for those in the lower and middle income brackets. We expect further information after Obama's tax reform panel reports at the end of the year.

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