Mentor Monthly Missive

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Introducing Mentor Capital's new Missive

You'll notice some changes this month in our monthly newsletter. In addition to design changes, there will be lots of new content. We've teamed up with Morningstar, a leading provider of investment research, to bring readers more timely articles about stocks and bonds, mutual funds and other financial issues.

In addition to articles on personal finance written by Mentor Capital advisors John Davis and Dan Carey, the newsletter will include content from Morningstar's expert staff of writers on diverse topics.

The new newsletter will also allow us to see which articles are being read and which are not. This will help us to refine the Missive's content to bring clients and friends of Mentor Capital more pertinent and interesting information. Please let us know what you think.

Mentor Capital Management Inc. would like to take this opportunity to wish everyone a safe and happy holiday season. We look forward to strengthening current relationships and welcoming new ones in the New Year. So, from John, Dan and Tammy: Merry Christmas, Happy Hanukkah, Happy Kwanza, and Happy New Year.

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Meet our Wealth Managers

Mentor Capital Management Inc. was founded in response to the belief that a consumer's best interests are served when his or her financial planner is Fee Only. Advisors of Mentor Capital strive to provide objective, prudent and thoughtful advice to clients based on their personal goals and objectives.

John S. Davis is Mentor's founder, president and chief investment officer. A graduate of the University of Missouri, Columbia, he is a Certified Financial Planner licensee and a Registered Investment Advisory Firm Principal.

Daniel B. Carey is vice president of Mentor Capital and a member of its board of directors. A graduate of the University of Notre Dame, he is a Certified Financial Planner licensee and a Registered Investment Advisory Firm Representative.

Monthly Market Commentary

Strong retail sales, an improving employment report, falling gasoline prices, and rising auto sales all painted a picture of a stronger U.S. economy these past few weeks.

GDP: GDP for the third quarter was revised downward to 2.0% from 2.5%, based on a larger-than-estimated inventory reduction and lower-than-expected imports. Fourth-quarter GDP estimates remain in the 2.5%-3.0% range, which would bring the full year to the 1.5%-1.75% range. One of the strongest determinants that could make these numbers true is consumer demand, which is expected to remain high at least during the holidays.

Employment: November employment numbers continued on a slow but steady upward trend. Although the recession officially ended in June 2009, private employment continued to decline until Feb. 2010. Overall, 8.9 million private-sector jobs were lost during the recession, and only 3.0 million were recovered since the February 2010 bottom (roughly equivalent to a 140,000-150,000 per month average). Consistent along these lines, employment numbers in November increased by 140,000 (better than 117,000 in October, but not as good as 220,000 in September). Longer store hours this holiday season translated into 50,000 jobs added in the past month, but these positions are mostly temporary, and the trend will find itself reversed once the busy season is over.

Unemployment: The drop in the unemployment rate to 8.6% from 9.0% may well be the best news of the week. However, only half of the decline was due to people actually finding jobs. The other half of the decline happened because of people who stopped looking, which is unusual, to say the least, in a still-uncertain economy. While a decline in the unemployment rate is good, the key metric that will move the economy forward is the number of new jobs added, which has been good, but not stellar, so far.

Income data: Real disposable income grew by 0.3% in October after declining three months in a row because of high inflation, falling Medicaid payments, and collapsing interest receipts. Consumption slowed from 0.5% in September to an even more depressing 0.1% in October. But then again, a year-over-year analysis using a three-month moving average shows consumption more steady, at about 2%.

However, the biggest detriment to consumer incomes has been taxes. Cessation of various stimulus programs, increases in state tax rates, and the progressive federal tax system mean that a 2.7% jump in incomes has been accompanied by a 15.9% jump in taxes. High earners were probably the ones who felt it most, but a look at luxury retailers contradicts this, as high-end spending has remained fairly constant.

Retail sales: In terms of year-over-year percentage change data, retail sales seem to be slowing down, but the comparison is very tough, since November was one of the strongest months in 2010. Weekly data is strong and suggests a potentially better picture for December sales, especially since it seems that many consumers have not begun their holiday shopping yet.

Auto industry: Automakers recently reported new U.S. light-vehicle sales with the best seasonally adjusted annualized selling rate since Cash for Clunkers in August 2009. In absolute terms, November sales totaled 994,786, up 13.9% from November 2010, and every major auto manufacturer except Honda posted a year-over-year sales increase.

In light of these mostly positive economic indicators, the overall consensus seems to finally indicate that the U.S. economy will not double dip. On the other hand, nobody is yet willing to project a robust 2012, either.

Treasury yield lags muni yield by widest margin in 2 years

Our friends at Bernardi Securities, a municipal bond dealer in Chicago, report that 10-year, "A"-rated MMD Index bonds yielded 3.21% on Nov. 30 vs. 2.07% on the 10-year U.S. Treasury.

The municipal yield is equivalent to a taxable yield of 4.28% for the 25% tax bracket. For investors seeking income who are comfortable with the additional risk, munis look very attractive now.

"Although nominal bond yields are low across most bond sectors, on a relative basis, non-taxable municipal bond yields exceed long-term Treasury bond yields by the widest margin in more than two years," Bernardi's recent newsletter stated. "Supply will remain elevated over the first couple of weeks of December, and we expect the significant sums of available cash will easily absorb it."

Call us for additional information or to see how municipal bonds might fit into your portfolio.

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