

# McDaniel-Knutson

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**Tammy Barnes**

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## Market Commentary: What's Next? (written 8-24-2011)

The past month has been among the most volatile in the stock market since 2008, with swings of over 5% happening several days in a row. With the sharp drop in the market after S&P downgraded US debt to AA+ and Europe debt crises reaching a critical point, where does the market go from here? What's the probability that we'll see even more declines?

in a "trading range," like a floor and a ceiling that a ball keeps bouncing off of but can't cross without a change in the environment.

Figuring out those reasons for volatility and the likelihood of the market moving higher or lower is the difficult part. It's easy in hindsight, but, during real-time, it's impossible to know the exact high and low until it's



Usually, when the market experiences periods of high volatility, it isn't a short-lived blip on the radar and then smooth sailing afterwards, with the market going on to new highs. Volatility happens for reasons, and, until they are eliminated or improved, the cycle of fear versus greed gets stuck chasing its tail. The "greedy" investors buy when the market reaches low points, which causes what we call "relief rallies." The "fearful" investors then sell when the market reaches prior high points, because they missed the last opportunity to get out, and they aren't going to miss it again. That keeps the market caught

over. However, we have educated guesses based on previous market and investor behavior, which I'll share with you now.

There are multiple reasons for the increased volatility: the debt crises in Europe that are coming to critical points, and the US debt uncertainty immediately followed by the S&P downgrade of US debt from AAA to AA+, with speculation brewing about another round of quantitative easing. Economic reports have been negative for the most part, and any glimmer of "it's not as

*(continued on page 2)*

## Market Commentary: What's Next? *(continued from page 1)*

bad as we thought” is usually met with sharp market rallies followed by more volatility.

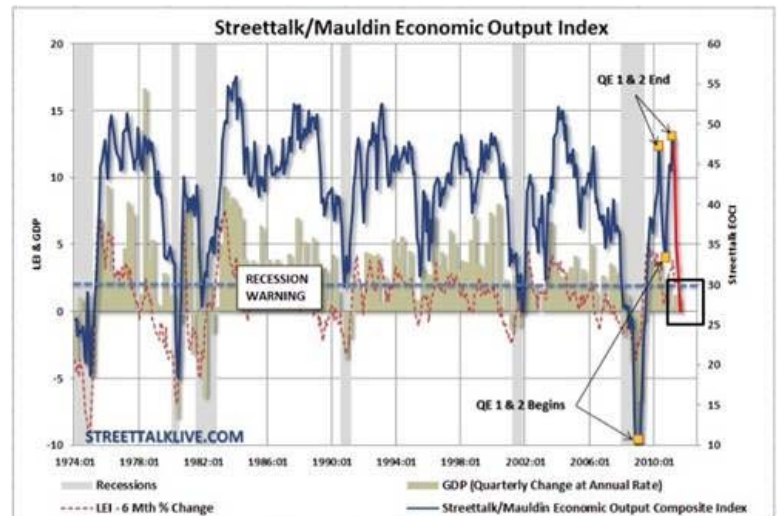
Investors want to see the US and/or Europe reassure them that they have even a glimmer of a viable plan to reduce debt or its consequences. There are several proposals on the table, including Eurobonds and greater US spending cuts. Until we have some kind of positive resolution that is agreed upon by our leaders, I believe the market won't be able to move sustainably higher but has a real possibility of going lower.

In addition, several of our technical indicators have now moved into bear market territory (see the graph on page 1). During the past 12 years, these indicators have turned bearish in October of 2000, December of 2007, and now in August of 2011. Our indicators are not foolproof, of course, but it does mean the correction has the potential to turn into a meltdown similar to 2008, and the probability of that happening is relatively high.

When the indicators signaled the start of a new bear market in 2000 and 2007, the market still had short-term rebounds and rallies that took it temporarily higher. But it was still a sign of an overall trend change. To give you an idea of the kinds of risks we're talking about, the Wilshire 5000 fell 49% from top to bottom from the fourth quarter of 2000 to the first quarter of 2003. From the last quarter of 2007 to the first quarter of 2009, the market fell 57%.

We read several market commentators, one of them being John Mauldin. In his latest e-newsletter<sup>[1]</sup>, he showed three charts that cause him “to be very concerned about the near-term health of the economy.” These indicators suggest that we are either already in the beginning of a recession or will be in one within 12 months. The graph at right, included in his newsletter, is a composite of several indicators to give you a snapshot of how far these indicators have fallen into recession-warning territory. The vertical bands mark previous

recessions going back to 1974. Every time this composite broke the dashed line, a recession was underway or imminent.



In this instance, the market fell extremely fast. Because of the magnitude of the fall, we're expecting very high volatility both up and down in market price.

We are keeping an extremely close eye on what's happening in the global economy and the markets, and we think it's prudent to forego some potential gains to protect against much larger losses.

Don't hesitate to contact your financial planner here at our office if you have questions.

~Victoria Bogner, CFP®

[1] "The Recession of 2011? - John Mauldin's Weekly E-Letter." Mauldin, John. [www.johnmauldin.com](http://www.johnmauldin.com). 20 August 2011.

## Revised Website Combines Old with New

Have you been out to [mcdanielfinancial.com](http://mcdanielfinancial.com) lately? If not, you should. McDaniel Knutson has totally redesigned its website with your convenience in mind.

First, we made everything easier to find. Click on the “Our Services” button, and you can see our overall investment philosophy and a basic overview of the KU retirement plans. Need to find out who your advisor’s assistant is? Click on the “Our Team” button. Want to view your accounts? You can login from the “Client Center.”

Next, we added several new features. We’ve provided an easy link to our sister site, [www.123retireme.com](http://www.123retireme.com), which has a fun, interactive tool that allows you to plan for major, life events such as a home or auto purchase, the birth of a child, or retirement; place them on a timeline; and compare them against your savings rate to see how you are doing on achieving your goals.

You’ll also find links to market graphs annotated with our opinions. That’s a great way to see what we think about what the market is doing.

We’re also very excited to introduce our blog. We’ll continue to post weekly market commentaries, but we’ll also be writing about legacy planning, investing strategy, taxes and much more. Every week, one of our advisors will blog about something we think will be of interest to you. Thus, you can plan on getting our perspective on things at least twice a week. The blog has an RSS feed, so you can sign up to be automatically notified every time there is new material.



The new [mcdanielfinancial.com](http://mcdanielfinancial.com) home page

Of course, just because we redesigned our site doesn’t mean we got rid of the features you enjoy. You can still monitor your accounts, see how we’re allocating funds in our managed models and find out about our latest special event.

We envision our website as another tool you can use to help achieve your financial goals. We’re committed to communication – we want you to know where we stand and what we think. [mcdanielfinancial.com](http://mcdanielfinancial.com) is just one of the means by which we endeavor to earn and keep your trust. We encourage you to stop by often for regular updates.

If you have any questions about or want to give us your opinion on the new site, send us an email at [info@mcdanielfinancial.com](mailto:info@mcdanielfinancial.com).

## PrimeVest to Replace Pershing as IRA Custodian

Pershing currently serves as custodian for many of our clients’ IRAs. This will change later this year. Pershing will continue to serve as the “clearing firm” and to hold client securities. But PrimeVest, an affiliate of Financial Network, will act as custodian, providing services directly related to IRA agreements, contributions and dis-

tributions. PrimeVest was founded in 1984 and currently serves clients with over 500 institutions nationwide. For clients, the change should be seamless, transparent and without cost. You will receive a letter from Financial Network, but it requires no action on your part.



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## Major Staff Changes at McDaniel Knutson

We've made quite a few alterations to our staff. First, Jen Gaupp, Wayne's and Vickie's assistant, departed for Colorado Springs, where her special someone will be stationed with the army for the next two years. After considering the matter carefully, we concluded both Wayne and Vickie each needed their own assistant.

We therefore hired Jennifer Davis to assist Wayne. Jen comes to us from Douglas County Bank, where she was the training coordinator.

Meanwhile, Ed's assistant, Kara Gourley, moved to Vickie and is now her personal assistant. That left Ed without an assistant, so we hired Terri Ireelan to fill that role. Terri joins us after having been a licensed insurance agent in property and casualty.

But that's not all. Jude McDaniel's assistant Tammy Barnes also is moving. Her husband is re-enlisting in the military, which will necessitate them relocating to Florida. Tammy will remain with McDaniel Knutson in a telecommuting capacity, where she will assist in a number of tasks.

That left Jude without an assistant, though, so Keith Gilliland transferred from receptionist to Jude. Of course, that means we needed a new receptionist, so we hired Brenda Coffman. She most recently was in media sales with the *Ottawa Herald*.

Whew! Got all that? There is an updated staff list below to help you sort it all out. And, of course, if you've got any questions, please call our office. We're always happy to help.

### McDaniel Knutson Staff

**Jennifer Davis** – Assistant to Wayne McDaniel

**Keith Gilliland** – Assistant to Jude McDaniel

**Cindy Folks** – Assistant to Pete Knutson

**Kara Gourley** – Assistant to Vickie Bogner

**Terri Ireelan** – Assistant to Ed Zeller

**Brenda Coffman** – Front Desk Receptionist

**Tammy Barnes** – Operations Administrator

**Karey Chester** – Compliance & Office Manager