

# Weekly Commentary

## January 26, 2009

### The Markets

The government is furiously at work trying to find the right balance between managing the economy from Washington and letting capitalism run its course.

Most economists agree that government intervention to help stem the severe recession is a necessary evil. The big question is, “How much?” If it’s too little, the recession might turn into a depression. If it’s too much, an economic slowdown might linger for years or inflation might spin out of control. Perhaps the easiest way to help determine if the government is getting the mix right is to watch the S&P 500 index. If the index rises, it might suggest investors feel good about the government’s moves. If it continues to decline, it might suggest the government has the wrong formula.

Of course, it’s ultimately more complicated than simply tracking what the stock market does, but the stock market indicator is helpful for a quick read on things. In addition to the market, we also have to monitor interest rates, the value of the dollar, federal budget deficits, unemployment, inflation/deflation, and various other indicators. And, let’s not forget that in our global economy, we’re all in this together, so, what happens overseas affects us and vice versa.

The new administration is now in place and they’re moving quickly to craft a comprehensive financial rescue package for the economy, according to CNN. Unfortunately, investors are notoriously impatient and each day of delay in announcing a new package seems to turn into another day of decay in the stock market. Last week, for example, was the third week in a row that the S&P 500 index declined, according to MSN Money.

We realize that down stock markets are unpleasant, but in a capitalistic society, short-term pain may be the price we have to pay for the potential to generate long-term capital gains.

Returns through 1/23/09	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Dow Jones Industrial Average	-2.5	-8.0	-33.8	-8.9	-5.2	-1.3
NASDAQ Composite	-3.4	-6.3	-36.5	-13.1	-7.0	-4.6
Standard & Poor's 500	-2.1	-7.9	-37.5	-13.0	-6.1	-3.9

Sources: Yahoo! Finance, Barron's. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. Three-, Five-, and 10-year returns are annualized. Assumes dividends are not reinvested.

**HOW CAN A \$100 TRILLION BILL** be worth only about \$300 U.S. dollars? It happens when your country experiences hyperinflation. In this case, we’re talking about Zimbabwe. According to a CNN report, the Reserve Bank of Zimbabwe will soon introduce a \$100 trillion bill. But, don’t expect it to buy much because in local currency, a loaf of bread in Zimbabwe now costs about \$300 billion Zimbabwean dollars.

Hyperinflation is not just a theoretical idea that economists contemplate between cups of coffee at Starbucks. As Zimbabwe illustrates, it can happen today. In fact, as of last July, Zimbabwe’s official annual inflation rate was 231 million percent – but, it’s probably risen since then. A

December 8th *Washington Post* article said independent economists think the actual rate is closer to 1 quadrillion percent (that's a 1 followed by 15 zeroes). By comparison, in the U.S. inflation rose a miniscule 0.1% in 2008, according to the Department of Labor.

The *Washington Post* said the hyperinflation was, "driven by the insolvent government's penchant for printing money to meet demand for scarce cash." Hmm, what's the U.S. government doing right now? They're printing money. Maybe that's why even with inflation essentially non-existent in the U.S., there's a small group of vocal financial folks sounding the inflation alarm.

Now, don't get us wrong. We're not suggesting that hyperinflation, or even 5% inflation, is on its way anytime soon in the U.S. The point we want to make is that government intervention in the economy may result in unintended consequences. As it relates to the various programs implemented by the government, they're pretty much flying blindly. They don't know exactly what the consequences will be of all their guarantee programs and deficit spending. Ultimately, there's no free lunch. The government's multi-trillion dollar bag of tricks, may save the economy from collapse, but at what future cost?

## **Weekly Focus – Diamonds are Forever**

In this week back in 1905, Frederick Wells discovered the world's largest diamond in Pretoria, South Africa. The 1.33-pound colorless behemoth checked in at 3,106 carats. It would sure take a big finger to hold that gem!

The diamond, christened the "Cullinan," was sold to the Transvaal provincial government, which later gave it to Britain's King Edward VII as a birthday gift. Ultimately, it was cut into nine large stones and about 100 smaller stones. Today, the largest stones are on display in the Tower of London as part of Britain's crown jewels.

Best regards,

*Jim*

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this e-mail with their e-mail address and we will ask for their permission to be added.

\* Securities offered through MML Investor Services Inc. Member FINRA/SIPC.

**\* These views are those of PEAK, and not the presenting Representative or the Representative's Broker/Dealer, and should not be construed as investment advice.**

\* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.

\* The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks.

\* The NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System.

\* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.

\* Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.

\* Consult your financial professional before making any investment decision.

\* You cannot invest directly in an index.

\* Past performance does not guarantee future results. Due to ongoing market volatility, current performance may be more or less than the results shown in this white paper.

\* To unsubscribe from the “Weekly Market Commentary”, please reply to this e-mail with “Unsubscribe” in the subject line, or write us at Franklin Financial Group, 11350 McCormick Rd. EPIV Ste.200, Hunt Valley, MD 21031.

\*Compliance Number: CRN201101-115752