

Weekly Commentary February 22, 2010

The Markets

The U.S. stock market has had several "mini corrections" since the March 9, 2009 low and last week's strong performance has some analysts saying the recent 9% drop in the S&P 500 from its mid-January high may have run its course, according to the Associated Press.

Stocks rose for the second consecutive week and have now recouped about two-thirds of the 9% drop that occurred between January 19 and February 8. Jitters about sovereign debt problems in Europe, central governments "taking away the punch bowl" of easy money, and a surprise rise in the discount rate last week have started to give way to the good news that corporate earnings are still moving up smartly, the manufacturing sector is on the rise, and inflation is subdued, according to Bloomberg.

Interestingly, whether you are bullish or bearish, there is still plenty of data to support either view. However, some of this data is contradictory which makes discerning solid trends a little more difficult. For example, the value of the U.S. dollar rose more than 8% against a basket of six currencies between late November 2009 and February 19, according to www.stockcharts.com. Yet, as the dollar is rising, our government is running trillion dollar deficits and the Federal Reserve continues to proclaim that it will keep interest rates low for an extended period of time-- both of which would seem to be bad news for the value of the dollar.

Also, core consumer prices *declined* in January for the first time since 1982, suggesting inflation is well under control. Despite low inflation, gold closed last week over \$1,100 an ounce, which is not far from its all-time record high, according to Barron's and CNBC. Low inflation would seem to be bearish for gold prices, but, so far, gold has ignored our relatively stable prices.

This "new normal" of contradictory relationships makes navigating the financial markets a bit trickier than usual.

Data as of 2/19/10	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	3.1%	-0.5%	44.0%	-8.8%	-1.3%	-2.0%
DJ Global ex US (Foreign Stocks)	1.5	-4.9	53.3	-8.8	2.0	0.4
10-year Treasury Note (Yield Only)	3.8	N/A	2.9	4.7	4.3	6.3
Gold (per ounce)	2.8	0.8	13.5	18.4	21.1	13.8
DJ-UBS Commodity Index	3.7	-3.1	29.6	-6.9	-2.5	3.2
DJ Equity All REIT TR Index	5.4	-1.0	89.4	-15.7	1.6	11.0

Notes: S&P 500, DJ Global ex US, Gold, DJ-UBS Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT TR Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.

Sources: Yahoo! Finance, Barron's, djindexes.com, London Bullion Market Association.

Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable or not available.

THE RICH ARE GETTING RICHER and the IRS just released some data that drives home that point. Below are some eye-popping tidbits on the top 400 individual tax returns based on largest Adjusted Gross Income, according to the IRS.

- In 1992, the person ranked 400th on the list had an Adjusted Gross Income of \$24.4 million. In 2007, that number rose to \$138.8 million.
- In 1992, the *average* Adjusted Gross Income for the 400 people on the list was \$46.8 million. In 2007, the average rose to \$344.8 million.
- In 1992, the top 400 paid 1.0% of the country's total income taxes. In 2007, they paid 2.1% of the total.
- In 1992, the average tax rate for the top 400 was 26.4%. In 2007, the average tax rate was 16.6%.
- During the 16 years between 1992 and 2007, a select group of 3,472 different people made the top 400 list at least once. And, out of those 3,472 people, 72% appeared on the list only once. At the other end, 7 extremely wealthy people made the top 400 list every one of those 16 years!

Do you have any guess as to who those 7 people are that made the top 400 list every year between 1992 and 2007? Inquiring minds want to know, but the IRS is not divulging the names.

Weekly Focus – Think About It

"A man is rich in proportion to the number of things which he can afford to let alone."
--Henry David Thoreau

Best regards,

Jim

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* 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.

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