

## Weekly Commentary April 12, 2010

### The Markets

The U.S. stock market continued grinding its way higher last week as the Dow Jones Industrial Average briefly pierced the 11,000 level for the first time since September 2008, according to *The Wall Street Journal*. Back then, the Dow was piercing 11,000 on its way down to below 7,000 in March 2009. This time, it's on its way up from the March 2009 low. Same number, but clearly a much different feel.

The main difference between then and now is the economy--it was bad then and getting worse, now, it is still weak but clearly improving.

On the improvement side, Thomson Reuters says analysts are looking for a 37% rise in first-quarter 2010 corporate earnings. Retailers reported a whopping 9.1% jump in March same-store sales, according to *Barron's*. On top of that, "The service sector is growing at the fastest pace since May 2006, and manufacturing the most since 2004. Employers are hiring again, and sales of existing homes rose 8.2% in February," according to *Barron's*. Stats like that are keeping investors interested in owning stocks even at ever-increasing prices.

Of course, the problems of the Great Recession are still here such as high unemployment, unsustainable budget deficits, tight credit, and weak housing. However, there is a potential solution to working our way out of this hole. *The Economist* magazine calls it a "re-balancing" of the world economy. Put succinctly, the magazine said, "If Americans save more and spend less while other big countries do the opposite, the world economy will prosper." In effect, the U.S. will need to export more to other countries who gobble up our goods and services. A weaker dollar could speed up this re-balancing; and, word that China might let its currency appreciate against the dollar in the near future supports this re-balancing theory, according to MarketWatch.

The effectiveness of this re-balancing could determine whether the next 1,000-point move in the Dow Jones Industrial Average is up to 12,000 or down to 10,000.

Data as of 4/9/10	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	1.4%	7.1%	39.4%	-6.1%	0.2%	-2.3%
DJ Global ex US (Foreign Stocks)	0.8	3.8	51.2	-6.5	4.1	1.0
10-year Treasury Note (Yield Only)	3.9	N/A	2.9	4.7	4.5	5.8
Gold (per ounce)	2.6	4.4	30.9	19.4	21.9	15.1
DJ-UBS Commodity Index	0.7	-3.2	19.1	-7.9	-3.1	3.6
DJ Equity All REIT TR Index	4.1	14.8	78.0	-9.5	4.8	11.9

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.

**U.S. COMPANIES ARE SITTING ON A RECORD PILE OF CASH** and that could buoy stock prices as companies use their cash to repurchase stock, according to Bloomberg. At the end of 2009, S&P 500 companies were sitting on a record \$831 billion in cash, according to Standard and Poor's. This cash hoard grew as companies spent only 28% of their operating profits on stock buybacks in 2009, according to Standard and Poor's as reported by Bloomberg. Further, Bloomberg said, "The last time the ratio dropped to that level, the S&P 500 subsequently climbed for four years."

Prominent money manager and *Forbes* columnist Ken Fisher said in a Bloomberg television interview in early April, "There's cash sitting there, waiting to come in later, which will then later help buoy both businesses and stocks. This bull market will carry on for several years." Yes, it is getting easier to find reasons for the stock market's year-long rise. But, just like in the late 1990s, a good fundamental story can get taken to an extreme and end in major disappointment.

One of the hallmarks of great investors is their ability to manage their enthusiasm. Rather than succumbing to euphoria, they try to maintain perspective. They aim to balance the positive with the potential negatives and not get carried away with an untamed crowd.

With the S&P 500 still down more than 20% from its all-time high and trading volume relatively low, we are likely not in danger (yet) of a new wave of market hysteria. However, we are always mindful of what could go wrong and, if this market keeps rising, so will our concern about the danger of getting caught in an "untamed crowd."

## **Weekly Focus – Think About It**

"Markets are constantly in a state of uncertainty and flux and money is made by discounting the obvious and betting on the unexpected."

-- George Soros

Best regards,

*Jim*

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- \* 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.
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